ZIMBABWE

TRADE SUMMARY

The U.S. trade deficit with Zimbabwe was $53 million in 2002, a decrease of $6 million from 2001. U.S. goods exports in 2002 were $49 million, up 58.2 percent from the previous year. Corresponding U.S. imports from Zimbabwe were $103 million, up 13.2 percent. Zimbabwe is currently the 136th largest export market for U.S. goods.

The stock of U.S. foreign direct investment (FDI) in Zimbabwe in 2001 was $229 million, up from $184 million in 2000.

IMPORT POLICIES

Zimbabwe began the 1990s with positive economic reforms. In 1991, the country started to transition from a highly controlled, Marxist-modeled, statist system to a more open, market-based economic system. During the first phase of its structural adjustment program Zimbabwe abolished quantitative restrictions in favor of a tariff-based trading system. In early 1996, the Government undertook a comprehensive review and rationalization of its tariff policies and rates with substantial World Bank input and the cooperation of the Confederation of Zimbabwe Industries (CZI). A new tariff regime, effective March 1, 1997, lowered duties on raw materials and other inputs in an effort to remove most cases of tariff inversion (where duties on raw materials are higher than on finished products made from those materials). Raw materials now incur a duty rate of 5 percent to fifteen percent, though additional import surcharges are frequently applied. Zimbabwe maintains a number of non-tariff barriers to protect its agriculture and mining industries.

Today, Zimbabwe has one of the worst performing economies in the world. The rapidly deteriorating domestic economic situation is characterized by shrinking Gross Domestic Product (GDP), declining exports, runaway inflation, and widespread food and fuel shortages. Economic conditions are expected to decline further before they improve, and a turnaround would likely need to be preceded by a resumption of positive working relations with the international donor and multilateral lending community. In June 2002, the International Monetary Fund (IMF) suspended technical assistance to Zimbabwe and adopted a declaration of non-cooperation regarding the country's arrears to the Fund, which total $135 million. In September 2002, the IMF began the formal process of suspending Zimbabwe from the Fund.

In March 2001, Zimbabwe raised tariff rates on certain processed items that have domestically produced substitutes, such as food, and reduced rates on some raw material and capital goods, such as machinery. However, one of the most significant import barriers in Zimbabwe is the severe hard currency shortage. The Zimbabwe government has closed all currency exchanges, pushing the parallel currency market further undergound and further constraining the supply of hard currency.

Tariffs and Duties

In response to the significant deterioration of Zimbabwe's economy and as a precondition to the imposition of a value-added tax (VAT) regime, the Zimbabwe government has been working on finalizing a new tariff and import duty schedule. In addition, in mid-2001, the Zimbabwe government created a new revenue authority that merged the revenue-collecting sections of the customs bureau and the tax bureau, without retaining all staff. The presence of new and inexperienced staff has reportedly resulted in new problems for importers.

Due to the slide of the Zimbabwe dollar against foreign currencies beginning in August 1998, the Government of Zimbabwe increased import tariffs across the board in September 1998 from 20 percent to 100 percent. In mid-2001, some of these tariffs were reduced, though the existence of different and sometimes conflicting tariff schedules causes disparate rates to be applied. Generally, higher duties are applied to luxury items and goods for which domestically produced substitutes exist. These include furniture, bicycles, motor vehicles, electrical and electronic goods, shoes, carpets and building materials. At present, tariffs and duties listed in the customs and excise amendment notice number 12 of 1998 are still in effect, though some amendments have been made and further changes have been promised.

Effective October 2, 1998, an additional 15 percent surcharge was placed on all imported goods, regardless of classification. A narrow exemption from the tax exists for capital goods, such as manufacturing equipment and intermediate goods that are subject to further processing and re-export. Periodic instances of corruption and inconsistent application of the law by customs officials continue to concern importers and users of imported goods and components.

GOVERNMENT PROCUREMENT

Zimbabwe law provides for non-discriminatory government procurement practices, including full transparency in the tender process. The Government of Zimbabwe's tender board is required to invite bids from both local and international entities for any purchase in excess of Z$800,000 (approximately $14,500). Notwithstanding these provisions, U.S. firms and various governments, including those of the United States, Belgium, France, Great Britain, Italy and Japan, have voiced strong complaints about the lack of transparency and fairness in government tenders. Multilateral institutions have also criticized the government tendering process and have called for changes. Zimbabwe is not a signatory to the WTO Agreement on Government Procurement.

In two prominent tenders, the contract awards were based on factors other than cost, and resulted in local suppliers being chosen over foreign suppliers with substantially lower bids. In addition the board's requirement to invite tenders for any project in excess of Z$800,000, Zimbabwe continues to use sole-sourcing for a number of major contracts, specifically purchases by the Ministry of Defense and contracts with the Reserve Bank of Zimbabwe to print paper money and mint coins.

In an effort to encourage indigenous businesses, Zimbabwe stipulates that, up to a certain limit, contracts for a member services and products may be filled only by Zimbabwean firms.

INTELLECTUAL PROPERTY RIGHTS (IPR) PROTECTION

Since independence, Zimbabwe has joined several international patent and trademark conventions. It is a member of the World Intellectual Property Organization, the Paris Convention for the Protection of Industrial Property (Stockholm text), and the Bern Convention for the Protection of Literary and Artistic Works (Rome text). The Government has also made a series of amendments to its domestic intellectual property laws in order to meet its World Trade Organization obligations. However, some enforcement problems exist. Audio and videocassette piracy is the most widespread intellectual property rights violation in Zimbabwe. While software piracy undoubtedly occurs by end users, pirated software is rarely sold commercially.

SERVICES BARRIERS

World-class professional services (including consultancy, accounting, and legal services) are generally available within the country. However, ongoing economic deterioration and the consequent decline in disposable income and standard of living, political violence and seizure of private property, have caused a marked increase in rates of emigration among professionals.

In 1999, some software companies encountered difficulties with the importation of programs containing extensive graphics, as Zimbabwe Customs deemed them to be entertainment programs (subject to an 80 percent duty) and not computer software (subject to a 15 percent duty). There are currently no trade restrictions on electronic commerce.

INVESTMENT BARRIERS

Zimbabwe's present political, economic and humanitarian crises represent the largest barrier to investment. The 2002 presidential election campaign between President Robert Mugabe and Morgan Tsvangirai, the leader of the Movement for Democratic Change, was plagued by violence and controversy. The election results (Mugabe declared the winner) were considered neither free nor fair by the international community. Following the flawed election, the Commonwealth suspended Zimbabwe's membership for one year. President Mugabe hardened his control over the country and increased government intervention in the economy. Until the political crisis is resolved and the economy starts to recover, foreign direct investment will likely continue to decline.

The Government of Zimbabwe has lifted some of its most onerous restrictions on foreign investment. It permits pre-independence investors to remit 100 percent of declared dividends and no longer imposes restrictions on local borrowing. In September 1995, the Reserve Bank of Zimbabwe (RBZ) began liberalizing blocked accounts, allowing repatriation of certain blocked funds (profits and dividends accrued on pre-1993 investments, corporate funds in Government of Zimbabwe external bonds, and accounts with authorized dealers).

Due to Zimbabwe's ongoing financial crisis, the government has re-imposed foreign exchange restrictions and a formal, fixed rate foreign exchange regime. The Zimbabwe government maintains a fixed official exchange rate of Z$55 to $1, but the parallel exchange rate is far higher (as high as Z$1,500 to $1), leaving open the possibility of widespread corruption among those with access to hard currency. The Government of Zimbabwe has also placed severe restrictions on exporters, who are required to remit 50 percent (up from 40 percent) of their foreign currency earnings to the Central Bank for exchange at the official rate. The remaining 50 percent is placed in a common foreign exchange pool which companies, in practice, have difficulty accessing.

Zimbabwe is a signatory to the following investor/investment protection treaties: the Multilateral Investment Guarantee Agency (MIGA), the International Convention for the Settlement of Investment Disputes, the New York Convention on the Enforcement of Foreign Arbitral Awards, and the United Nations Convention on International Trade Law. Nevertheless, obstacles to foreign investment are pervasive. Foreign-owned businesses cite corruption as a serious and troublesome problem, particularly during establishment, expansion or transfer of assets. Both new and established investors have encountered delays and lack of transparency in obtaining investment transfer approval from the Reserve Bank of Zimbabwe. There have also been protracted delays and a lack of transparency in the approval process for work permits for expatriate representatives of overseas firms. Applicants have described the process as difficult, time-consuming and arbitrary.

Investment Promotion

New foreign investment in Zimbabwe, excluding export processing zone (EPZ) projects, has to be approved by the Zimbabwe Investment Center (ZIC). In addition, branch operations require approval from the Ministry of Justice’s registrar of companies, and foreign investment in companies may require Reserve Bank approval. EPZs and certain related tax concessions have been created in an effort to boost foreign investment. Benefits of locating in an EPZ include a five-year tax holiday, duty-free importation of raw materials, no tax liability from capital gains arising from the sale of property forming part of the investment in designated processing zones, and duty-free importation of capital equipment for use in the EPZ. A trade performance mandate requires eligible companies to export at least 80 percent of output. The EPZ authority, has approved applications for 105 companies to operate in more than a dozen zones. Just over half of these projects have been completed; the remainder have been slowed or halted by the economic downturn. The new entities are also encountering difficulties in connecting to telecommunication, water and electric utilities. Problems continue to arise with the Department of Customs, which frequently charges designated companies duties on inputs and equipment which are exempt under the regime.

For companies listed on the Zimbabwe Stock Exchange (ZSE), up to 40 percent of outstanding shares may be foreign-held, with a 10 percent cap for any single foreign holder. Several commercial and merchant banks and brokerage firms offer comprehensive advisory services on the domestic and regional markets. Work and permanent residence permits are available to investors who bring in specified amounts of foreign capital.

OTHER BARRIERS

Land reform

The Zimbabwe government seized 95 percent of white-owned farm land, displacing more than 300,000 (possibly as many as 500,000) farm workers. Regulations imposed in 2002 tightened the land seizure laws and cancelled eviction reprieves given to some white farmers by the courts. Over 300 farmers have been arrested for defying eviction notices. There is no due process of law given to those who try to reclaim their land, and there has been violence associated with the land seizures. While the redistribution of large commercial farms to the landless and small scale indigenous farmers has long been a stated goal of the Zimbabwe government, there was no sustained implementation until the Zimbabwe government lost a constitutional referendum vote and its subsequent successful campaign based on the issue in parliamentary elections in the first half of 2000. Because the Zimbabwe government proceeded with its "fast track" land resettlement program without the benefit of a transparent, coherent plan, and in defiance of orders from the Supreme Court to comply with the law, international and donor assistance for land reform was suspended. Much of the best land has been given to government and ruling party officials and President Mugabe's relatives.

As a result of the land seizures, poor economic policies, and drought, Zimbabwe is experiencing a severe shortage of maize for the first time since the 1991/1992 drought. While the food security crisis in the rest of southern Africa is slowly improving, the situation in Zimbabwe is getting worse. The World Food Program estimates that over seven million people in Zimbabwe need emergency food aid in 2003.

Privatization

The donor community and the multilateral financial institutions agree that Zimbabwe's record on privatization has been poor. Sustained pressure by these outside groups has brought few results because the Zimbabwe government does not have a well-defined privatization program to govern the process. Even though the IMF has made progress on privatization a condition for the renewal of its relationship with the Government of Zimbabwe, continued delays are expected. As part of the ongoing commercialization/privatization program, all parastatals must now pay taxes and declare dividends. Recent government budgets have contained a provision for raising substantial funds from government asset sales through privatization, but results have been consistently well below expectations.

A central problem in the privatization effort has been the absence of a single organizational entity with overall responsibility for the design and implementation of the program. In 2001, the Zimbabwe government did establish an independent unit that was charged with identifying public enterprises to be privatized and expediting the sales process. Zimbabwe has privatized several of its agricultural marketing boards. The Cotton Company of Zimbabwe (COTTCO) (formerly the Cotton Marketing Board) and Dairiboard of Zimbabwe (formerly the Dairy Marketing Board) were privatized in 1997 through share floats on the Harare Stock Exchange. The Zimbabwe government retained a 25 percent interest in COTTCO and a 40 percent interest in Dairiboard. In the last quarter of 1999, the Rainbow Tourism Group, a parastatal involved in tourism, was privatized, with the Government of Zimbabwe retaining a 30 percent equity share. The group owns several hotels, the Harare International Conference Center, and a transportation company.

A stated goal of privatization in Zimbabwe has been to increase black ownership of the nation's commercial assets. The National Investment Trust (NIT) was set up to facilitate the participation of the economically disadvantaged indigenous population in the privatization process, though funds budgeted for this purpose have never been adequate. As an ad hoc solution, the government forced postal workers and the National Social Security Fund to buy and hold shares on behalf of the NIT. On several occasions, critics have asserted that the implementation of the Zimbabwe government's privatization/indigenization policy has been slow, uneven, and tends to favor government friends and ruling party allies at the expense of independent black entrepreneurs. U.S. firms also have complained about official attempts to dictate their choice of local partners (local partners are required in many reserved sectors) under the guise of the Zimbabwe Government's indigenization policy.