ZIMBABWE

TRADE SUMMARY

In 2001, the U.S. trade deficit with Zimbabwe was $59 million. U.S. merchandise exports to Zimbabwe totaled $31 million, a decrease of 41 percent. U.S. merchandise imports from Zimbabwe were $91 million, a decrease of 19 percent. Zimbabwe was the United States' 147th largest export market in 2001. The stock of U.S. foreign direct investment in Zimbabwe was approximately $196 million in 2000, an increase of 56 percent from 1999. The political crisis surrounding the 2002 Presidential election in Zimbabwe combined with continued sharp economic decline has severely impacted investment and trade.

IMPORT POLICIES

Zimbabwe's economy, including its tariff regime, began a transition in 1991 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, which ended in 1995, Zimbabwe abolished quantitative restrictions in favor of a tariff-based trading regime. In early 1996, Zimbabwe 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 eliminate the majority of instances of tariff inversion (circumstances in which duties on raw materials are higher than on products made from the raw materials) . Raw materials now incur a duty rate of 5 percent to 15 percent, though additional import surcharges are frequently applied.

The number of tariff lines and maximum tariff rates were reduced in September 2000, but in March 2001, the authorities 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. Zimbabwe maintains a few non-tariff barriers to protect agriculture and mining.

Probably the most significant current barrier to imports into Zimbabwe is the severe hard currency shortage. Economic conditions are expected to deteriorate 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.

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 Government of Zimbabwe has been working on finalizing a new tariff and import duty schedule. In addition, in mid-2001, a new revenue authority in Zimbabwe was created that merged the revenue-collecting sections of the customs bureau and the tax bureau. The new authority did not retain all the experienced 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 which began in August 1998, the government increased import tariffs across the board in September 1998 from 20 percent to 100 percent. In mid-2001 some of these rates were reduced, though the existence of different and sometimes conflicting tariff schedules causes disagreement. Generally the 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 as presented 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. Representative examples include:

- Duty on edible vegetables increased from 40 percent - 60 percent to 60 percent - 80 percent;
- Duty on cereal flours increased from 30 percent to 60 percent;
- Duty on prepared cereals increased from 40 percent to 80 percent;
- Duties on fruit juices and aerated water 85 percent and 82.5 percent respectively, with a Z$10/liter (about 18 cents at current exchange rates) and 22.5 percent excise duty respectively;
- Duty on imported wines 95 percent and Z$2.50/liter (about 4 cents at current exchange rates) excise tax;
- Duty on footwear increased from 30 percent to 65 percent;
- Duty on passenger motor vehicles (buses) seating 20 or more persons increased from 25 percent to 50 percent, while on vehicles seating 19 or less (minibuses) the duty rose from 40 percent to 80 percent;
- Duty on toys increased from 30 percent to 70 percent; and
- Duty on plastic or wooden furniture increased to 80 percent from 40 percent.

Effective on 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 a lack of uniform application of the law by customs officials continue to concern importers and users of imported goods or components. Relevant tax and duty changes included in the 2001 budget announcement include:

- Reduction of sales tax on commercial vehicles from 25 percent to 15 percent;
- The corporate tax rate is reduced from 35 percent to 30 percent plus an HIV/AIDS levy of three percent, and from 35 percent to 25 percent for mining companies;

Effective January 1, 2001, capital goods imported by the mining sector for a five-year exploration phase are exempt from import and sales taxes. In addition:

- A 20 percent aircraft leasing excise tax was eliminated, and import duties on aircraft spare parts were also eliminated;
- Excise duty on soft drinks reduced from 25 percent to 15 percent, and excise duty on imported beer reduced from 80 percent to 60 percent; and
- To promote exports, companies earn transferable duty-free import certificates equal to 10 percent of the U.S. value of incremental export growth in 2001 and 2002, using 1999 as the base year.

GOVERNMENT PROCUREMENT

Zimbabwean 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 this positive legal environment, U.S. firms and various national governments, including those of the United States, Japan, Great Britain, France, Belgium and Italy have voiced strong complaints about the lack of transparency and fairness in government tenders. Multilateral institutions have also criticized the government tendering process and 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, resulting in local suppliers being accepted over foreign suppliers with substantially lower bids. Despite the Board's requirement to invite tenders for any project in excess of the Z$800,000 threshold, Zimbabwe continues to use sole-sourcing for a number of major contracts, in particular 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 maintains quotas on certain services and reserves these quotas for local 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, and is a signatory to the Paris Convention for the Protection of Industrial Property (Stockholm Text), and the Berne Convention for the Protection of Literary and Artistic Works (Rome Text). However, some enforcement problems exist. Audio and videocassette piracy is the most widespread intellectual property issue in Zimbabwe, though the volumes involved are relatively small. While unauthorized use of software occurs, pirated software is rarely sold commercially.

SERVICES BARRIERS

World-class professional services (*inter alia*, consultancy, accounting, and legal) are generally available within the country. However, the recent economic deterioration and consequent slide in disposable income and standards of living, as well as political violence and invasions of private property have caused a marked increase in the rates of emigration of 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 crisis represents 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 not considered free or fair by the international community. Subsequent to the flawed election, the Commonwealth suspended Zimbabwe for one year. Until the political crisis is resolved and

the economy starts to recover, foreign direct investment likely will continue to decline.

The Government 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 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, there is serious concern that the government may re-impose of foreign exchange restrictions or a fixed exchange-rate regime, and currently 40 percent of all export proceeds must be transferred to the Central Bank for exchange at the official exchange rate.

In addition, in late 2001 the government imposed price controls on a wide range of staples and commodities including: maize meal; sugar; cooking oil; flour; beef and poultry; soap; fertilizer; cement; crop seeds; and paraffin. The controls, which cause production losses for most manufacturers, have resulted in shortages of these staples and disinvestment in some sectors, such as poultry and beef production.

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.

Obstacles to foreign investment are pervasive. Foreign-owned businesses cite instances of corruption as serious and troublesome, particularly during establishment, expansion or transfer of assets. Both new and existing investors have encountered delays and a 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 on the part of the government in approving work permits for expatriate representatives of overseas firms. Applicants have described the process as difficult, time-consuming, and at times, arbitrary.

New foreign investment into Zimbabwe, excluding export processing zone projects, have 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 existing companies may require Reserve Bank approval.

Export processing zones (EPZ) 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, operational since early 1996, has approved applications for 105 companies to operate in more than a dozen zones. Just over half of these projects are operational, with the others slowed or halted by the economic downturn. The new entities are also encountering difficulties in connecting to telecommunications services, water and electric utilities. Problems continue to arise with the Department of Customs, which frequently charges designated companies duties on inputs and equipment which should be 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

Zimbabwe is currently engaged in an aggressive, chaotic land occupation and resettlement program that has economic consequences that are yet to be fully understood. For example, for the first time since the 1991/1992 drought, the country is experiencing shortages of maize, at least partly due to the land invasions, and the prospects for the next growing season are dire for both food crops and export crops. While the redistribution of large commercial farms to the landless and small-scale indigenous farmers has long been a stated goal of the Zimbabwean Government, no sustained implementation had occurred until the government's loss of a constitutional referendum vote and the subsequent campaign for the parliamentary elections in the first half of 2000. Because the government has proceeded with its "fast track" land resettlement program without benefit of a transparent, coherent plan, and in defiance of orders by the Supreme Court instructing compliance with the law, international and donor assistance for land reform is now suspended for the most part. Recent court decisions by an expanded and reconstituted Supreme Court "legalizing" the land resettlement process has not convinced the donor community to re-engage.

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 government does not have a well-defined privatization program to govern the process. The IMF has made progress on privatization as a condition for the renewal of its relationship, but 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 all contained a provision for the raising of substantial funds from government asset sales through privatization, but results consistently have been 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 government did establish an independent unit that is charged with identifying public enterprises to be privatized and expediting the sales process. Performance has been disappointing. 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 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 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 its behalf. On several occasions, critics have asserted that the implementation of the 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 government's indigenization policy.