Final Draft

TRADE LIBERALISATION UNDER STRUCTURAL ECONOMIC ADJUSTMENT– IMPACT ON SOCIAL WELFARE IN ZIMBABWE

PAPER FOR

THE POVERTY REDUCTION FORUM [PRF]

STRUCTURAL ADJUSTMENT PROGRAM REVIEW INITIATIVE [SAPRI]

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Date April 2001

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Acronyms

ACP	African, Caribbean and Pacific Countries
CFU	Commercial Farmers' Union
CMB	Cotton Marketing Board
COMESA	Common Market for Eastern and Southern Africa
CSC	Cold Storage Commission
DMB	Dairy Marketing Board
ESAP	Economic Structural Adjustment Program
EU	European Union
GDP	Gross Domestic Product
GMB	Grain Marketing Board
ILO	International Labour Organisation
IMF	International Monetary Fund
MFA	Multi Fibre Agreement
MFN	Most Favoured Nation
OGIL	Open General Import License
RPED	Regional Enterprise Development program
SA	South Africa
SADC	Southern African Development Community
WTO	World Trade Organisation
ZCTU	Zimbabwe Congress of Trade Union
ZFU	Zimbabwe Farmers Union
ZIMPREST	Zimbabwe Program for Economic and Social Transformation

1 Background to Trade Liberalisation in Zimbabwe

> ***Kakara Kununa Hudya Kamwe - [A predator thrives on preying on other animals]- Shona Proverb*** *defining t*rade liberalisation by ordinary Zimbabweans

1.1 Wedded to the Washington Consensus - neo liberal trade reasoning

Trade liberalisation is one of the key elements of economic structural adjustment packages sold to developing countries by the Bretton woods institutions, the WTO, bilateral and multilateral donors. It lies at the heart of the 'New Washington Consensus" and has long been championed as the panacea to low economic growth being experienced in developing countries. Achievements of South East Asia strongly support the view that export led growth policies serve as an engine for enhancing social welfare, human development, economic growth and development as well as serving as a mode for greater integration of these countries into the global economy. UNCTAD [1996, 1998] and World Bank [1994, 1997]. Contrary to such experience, and particularly in Africa, there is no conclusive evidence regarding the role and impact of trade liberalisation and globalisation on human development, livelihoods, social welfare and economic development. Few African countries have benefited from trade liberalisation [World Bank 1995, 1996b] while in a number of cases, liberalisation was followed by misery, increased hardships, deterioration of human development, destruction of poor peoples' livelihoods, environment, high rates of inequality, marginalisation of poor countries and their communities.

Notwithstanding the controversy regarding the role of trade liberalisation on economic development, and social welfare, the momentum of trade liberalisation continues in Zimbabwe. Since 1991, Zimbabwe undertook unilateral measures to liberalise its trade regime within the context of ESAP with assistance from Bretton Woods institutions which was followed by further liberalisation within the multilateral [WTO] context, regional framework [SADC, COMESA] as well as at bilateral level. Currently, Zimbabwe is in its second phase of trade liberalisation within ZIMPREST – the successor program to ESAP and also within the new WTO trade negotiations round, Lome Convention, SADC and COMESA.

Neo-liberal economic reasoning justifies liberalisation of trade on the premise that it creates opportunities for firms to grow through better access to new production technologies, inputs, managerial and administrative skills and market information to local producers. Competition from imports lead to specialisation, efficient allocation of resources and cleanse the economy of inefficient producers which removes the burden on the society of sustaining such entities. With greater openness, small economies tend to have higher shares of trade in their GNP when compared to large countries and their gains from trade are most likely to be higher than those nations that restrict trade, Kuznets [1973]. Further, trade liberalisation enhances welfare of consumers and reduces poverty since consumers will have opportunities to choose over a wide variety of better quality and cheaper imports. In other words, trade liberalisation is a means towards enhancing human development, social welfare and sustainable economic growth and development.

However, the trade and welfare benefits nexus is not automatic but dependent on several factors such as sequencing and phasing of liberalisation as well as built-in mechanisms to distribute benefits. Critics of conventional trade theory and wisdom argue that the world trading environment is grossly uneven, characterised by unequal exchange, transfer pricing practices, price manipulation by monopolies, imperfect competition and cross conditionalities, Singer- Prebisch, [1970s], Martin Chore. [1998], Lal, Das, [1998] and UNDP [1999]. Under such circumstances, trade liberalisation and globalisation taken as divine rules and in the absence of correct policies to ensure equitable distribution result in hardships and increases in poverty. Rather policies towards greater openness must be take strategically to take account of human development and other social priorities.

Trade is a traditional instrument through which Zimbabwe has become integrated into the global economy and a common measure used to evaluate whether an economy is integrated into the global economy is the ratio of trade turnover to GDP. This measure can further be disaggregated into the ratio of imports or exports to GDP, which reflect how much is sourced from outside and how much is produced for foreign markets respectively. The higher the ratios, the higher are the level of integration of the economy into the global economy. In these terms, paradoxically Zimbabwe has a very high ratio of trade turnover to GDP of about 66% [i.e., produces a considerable amount for foreign consumption and consumes foreign goods] compared to major industrialised countries yet it is not deriving as much benefits from the global economy as the US for instance.

The problem is not that Zimbabwe is not integrated into the world economy but due to structural problems of its economy it concentrates on areas where **rent** is very low due to high competition, easy entry and consequently falling prices and terms of trade [Kaplinsky, R 1998]. The concept of rent which according to Schumpeter, J, [1961] is surplus accruing to the entrepreneur for his innovativeness in the form of super profits or above normal rewards/profits is central in determining whether a country benefits from trade liberalisation. Liberalisation and globalisation rewards those who are able to identify areas of high rent and shift from low rent and these will become 'fast track globalisers', while those who are tied into specialising in traditional low rent areas fail to realise benefits and therefore become slow track globalisers.

In view of this background, the main objective of this paper is to analyse the impact of trade liberalisation aspect of structural adjustment program adopted since 1991 on livelihoods of poor and vulnerable groups, human development, on economic growth and to propose ways of spreading the benefits of liberalisation of trade to enhance the lives of the poor. The hypothesis in the paper is that trade policy reforms, liberalisation undertaken strategically i.e., within a clear national development program can be very useful tools and means of stimulating growth, reducing poverty and improving human development. On the contrary, trade liberalisation taken for the sake of it and driven by outside forces, generates serious hardships in the form of deterioration of social welfare and human development. Trade liberalisation on its own is not a sufficient condition to promote economic development.

1.2 Zimbabwe's Trade Liberalisation Program - ESAP and ZIMPREST

Prior to the market oriented economic reforms of 1991, Zimbabwe pursued an import substitution development strategy and imposed several controls on trade, foreign currency flows and exchange rate. Initially the policy was viable but later it produced some serious problems such as industrial inefficiency, low productivity, renting seeking behaviour, market distortions, public sector decay and more importantly the drying up of foreign currency resources. By 1991, import cover had literally fallen to a couple of days, similar to the situation prevailing at the present moment [Kadenge, P. 1992]. A general economic crisis was therefore looming and with no alternative, government accepted market reforms that ensured inflows of foreign currency and other support from IMF and WB. Suffice to note that nearly 4 years of heated debate preceded the adoption of trade liberalisation program in Zimbabwe in 1991. Thus, the main objective of ESAP in the area of trade was "trade liberalisation including the abolition of quantitative controls and the reduction and harmonisation of tariffs and duties", Government of Zimbabwe ESAP [1991]. Specific objectives of the trade liberalisation program included;

- ✓ Removal export incentives,
- ✓ Phasing out of import licensing regime,
- ✓ Elimination of foreign currency controls, and
- ✓ Reduction of tariffs and create at tariff band ranging from 0 to 30% and
- ✓ Removal of surtax and raising of the minimum duty to 10%

✓ Achieving export growth rate of 9% a year over 5 years from 1991.

In terms of sequencing of the trade liberalisation we distinguish four phases. The first phase was from august 1991 to 1993 and started from the devaluation of the Zimbabwean dollar of august 1991, followed by continued depreciation of the currency. This period saw the liberalisation of imported inputs, which resulted in worsening of the balance of payments that period, but enhanced profitability of import using manufacturing sectors. Generally the performance of the tradable sector was seriously affected by a conjunction of drought, depressed incomes, high interest rates and a 80% drop in the real stock market index for the industrial sector [World Bank 1995a. pp.2]. The second phase started in 1993 to 1995 with the placing of most goods on the OGIL and the removal of export incentives. All imports were placed on the OGIL except those that are regarded as strategic such as fuels. The third stage coincided with the start in 1995 of the implementation of commitments Zimbabwe had taken within the framework of the World Trade Organisation [WTO] tariffs were significantly reduced and non-tariffs barriers were converted into tariffs equivalents allowing the controls to move towards tariffs only protection. Further, the foreign exchange regime was liberalised leading to currency convertibility. Important export incentives that served as lifelines for some firms were removed with the exception of duty draw back and export financing schemes 1994. The final phase of trade liberalisation saw the implementation of the Export Processing Zone [EPZs] program that included several export incentives to promote export-oriented production and development. The EPZ program has so far failed to take off in a big way due to lack of commitment on the part of government, difficulties to access the incentives offered, policy reversals, lack of co-ordination between government departments and economic hardships faced by firms. ESAP was succeeded by ZIMPREST that sought to further deepen trade liberalisation measures adopted under ESAP.

It should be noted that up until 1998 and particularly during the ESAP period Zimbabwe did implement the trade policy liberalisation component of the economic program in full. Since 1998 then the trade liberalisation program has been reversed. More precisely official policy and practice on trade policy are divergent. For example, within the ZIMPREST [1998-2000] and even the Millennium Economic Recovery Program [MERP], the official position on trade is further liberalisation yet in practice government has taken several measures that indicate trade policy reversals such as the tariff rationalisation program of 1998, Zimbabwe's mid loading of tariffs within the SADC trade protocol, the removal of several tariff exemptions and proposed reintroduction of price controls. This issue of trade policy reversals is explored in details in the last chapter of this report.

2 Trade Liberalisation and Performance of the Economy

2.1 Was economic growth better before or during the reform period?

Economic performance depends on a number of socio-economic, political internal and external variables and within these trade policy although not a sufficient condition plays a very important role. In this section we review the performance of the economy under both under a liberalised and unliberalised trade regime and as far as possible relate that performance to shifts in trade policy. No close correlations are however assumed given the fact that economic growth is a function several variables. Our first observation from comparing economic performance before and during the ESAP period [1991-98] is that real GDP growth under liberal trade regime has been inferior to the pre ESAP performance. Real GDP growth was 5.3% for the period 1985-91 compared to 3.2% during 1992-97. Before ESAP performance was inferior to ESAP period particularly for manufacturing which recorded 8.9% and –0.7% respectively and mining recording 4.5% and 2.3% respectively while agriculture recorded impressive growth of 6.6% and 10.0% for the two periods respectively. Table 1 is illustrative of this point. Agriculture has on the other hand grown faster during ESAP irrespective of the severe 1992 drought. The good performance of agriculture, the largest employer of labour, indicates that wage incomes must have increased which reduces poverty and enhances human development.

Table 1. Trade liberalisation and economic performance

	Before trade liberalisation 1985-91	**After Liberalisation 1992-97**	
Real GDP Growth	5.3%	3.2%	
Agriculture	6.6%	10.0%	
Manufacturing	8.9%	-0.7%	
Mining	4.5%	2.3%	

To get a fairer picture of the impact of trade liberalisation we excluded in the analysis of economic performance the last 2 years [1999 and 2000] since they have been characterised by sudden introduction of major shocks into the economy namely; land invasions, escalation in political violence, reintroduction of foreign exchange controls, involvement in the DRC war, hyper inflation and interest rates. Inclusion of these events would certainly have produced a much gloomier picture. Below we will closely look at the impact of a liberal trade regime on three main economic sectors viz; agriculture, mining and manufacturing. In the case of manufacturing sub-sectoral case studies are presented to illustrate the impact of trade liberalisation in greater detail.

2.2 Agriculture – apparent Winner from liberalisation

Trade liberalisation and domestic deregulation have generated numerous opportunities and gains for agriculture in Zimbabwe other than the increase in prices of imported agricultural inputs related to volatility in foreign exchange. Removal of price controls which has resulted in producer prices going up has benefited agricultural communities who have access to markets and with the ability to shift into alternative cash crops according to the shifts in relative prices. All agricultural marketing parastatals (DMB, CMB and CSC) bar GMB have been privatised and are no longer subsidised. GMB has two main arms one, which runs on commercial basis, and the other entrusted with maintaining strategic grain reserves.

The emergence of seasonal price differentials have also benefited those farmers with access to irrigation facilities or on-farm storage and who can afford to wait to sell after harvest once prices have increased i.e. tobacco and maize. Extension services, subsidies, farm inputs and credit to the communal areas were drastically trimmed in the reform era. There has been a significant growth in export crops such as cotton, floriculture, tobacco, sugar etc that has led to the creation of employment on commercial farms for rural workers who are to a great extent women.

2..2.1 Gains from competition:

Domestic deregulation and trade liberalisation have also resulted in the emergence of small-scale private operators particularly as middlemen and processors. A USAID-funded 1995-1996 Zimbabwe National Hammer Status Study estimated that there has been an increase of 3,500 hammer mills since liberalisation especially in rural areas accounting for about 80% of the total market. By providing quality and cheaper maize meal products and being located close to customers in the poor communities of the country where they do not have to incur transport costs, small operators have not only been successful but they have enhanced food security in areas they operate. In terms of employment, small-scale Hammer mills are estimated to employ

7.512 permanent workers plus additional 3000 casual workers. Gains to the hammer milling business has recently been eroded by the shortage in fuel particularly diesel which is main source of energy for rural based operators.

Liberalisation has also opened opportunities for small-scale producers to diversify into cash crops and an outstanding example is cotton production. Following the deregulation of cotton marketing and the privatisation of the Cotton Marketing Board [CMB] into the Cotton Company of Zimbabwe Ltd., new players entered the market increasing competition much to the benefit of cotton farmers. Farmers are getting better deals because they are aware of differences in what the companies offer. It is also important to note that currently small holder farmers supply about 65% of cotton and most of it is exported. The quality of Zimbabwe's cotton is ranked among the best in the world because it is hand picked and small holder farmers often use hired labour from surrounding communal areas. However, the use of hired communal labour to pick cotton has led to two major contradictory outcomes related to human development. On one hand, income levels of households that sell their labour have been enhanced and poverty alleviated while on the other hand, due to hardships some families have removed their children from school to go and pick cotton which seriously worsens human development in such communities.

Prior to ESAP in 1991, the Grain Marketing Board [GMB] influenced prices as well as distribution through a highly monopolised and centralised storage and milling system. All grain was moved out of maize-surplus areas in the north to major urban centres, with no provision for delivery to the semi-arid rural areas. The GMB was partially deregulated in 1994/95 and farmers are now able to sell directly to millers, to middlemen and amongst themselves, in addition to the GMB. It should be noted however that private operators and middlemen are reaping off small-scale farmers by underpaying them especially in remote areas where GMB depots were closed. While poor producers and middlemen have benefited from the deregulation of the GMB, large-scale millers have been crying foul play because the price of maize meal is still subject to government control. A number of millers have closed some of their plants due to viability problems following government refusal to sanction increases in prices of maize meal.

Main complaint is that traditionally, GMB is known of buying farm produces at very low prices and paying the farmers very late such that by the time they receive their income it will have lost purchasing power. This year [2000] the problem has been cute as GMB did not have funding to purchase grain from farmers causing serious losses to small-scale farmers who lack storage facilities. The farmers as a result opt to sell their products to private buyers but these have been dishonest. In many instances they just collect farmer's produce in hope to pay later but they do not even come back with the money. As a result most farmers have lost their incomes through that.

Because of the new pricing policies, " …rapid expansion in tobacco production following the much-improved prices of 1991 led to a high level of investment in tobacco curing barn and other facilities for tobacco production. This was enhanced by the provision of a large special foreign currency facility for tobacco growers, which encouraged a substantial growth volume of investment in the range of specific capital equipment items for which this facility could be used.''

The horticulture industry that is one of Zimbabwe's most vibrant export sectors in recent years has received both direct and indirect benefits from trade liberalisation policy. Large-scale commercial farmers have shifted from traditional commodities with declining real producer prices towards the end of the 1980s into fruit, vegetables and cut flower production. The exchange rate and trade liberalisation component of ESAP also encouraged the industry to take opportunities offered by preferential arrangements such as the Lome Convention and GSP. Introduction of Foreign Currency Accounts [FCA] gave farmers the opportunity to diversify and expand production for exports and to hedge against inflation and currency devaluation. Information asymmetries prevent the gains arising from trade liberalisation being transmitted to communal and resettled households. For example, so far small holder farmers have failed to shift to high-value crops from traditional crops like maize and cotton due to lack of market information.

However, general economic performance and export growth have been low not as a result of liberalisation alone but due to other factors such as;

- weak world commodity prices on Zimbabwe's primary exports especially gold, tobacco, nickel, and asbestos.
- Farm invasions by the self styled war veterans
- diminishing business confidence in the wake of infringement on rule of law and corruption
- Zimbabwe's military involvement in the war in DRC which increases the deficit and damages prospects of IMF disbursements and inflow of donor aid
- the new militancy in the labour union movement adding to cost pressures.
- continued depreciation of Zimbabwean dollar.
- concerns about the likely impact of El Nino on farm production,
- high real interest rates and inflation leading to very high input costs which undermine the usual positive impact of good rains on the economy.
- sudden slowdown of the Southeast Asian economies has also spread to other regions and Zimbabwe has not escaped the scratch.

2.3 Mining driven development – a shattered dream

Prior to economic reforms of 1991, Zimbabwe's mining sector was already closely integrated into the world market through trade such that its performance was dependent on the dynamics of world prices for minerals. The added advantage from trade liberalisation has been improved access to modern capital and new technology for the sector but the tight monetary policy and high interest rates penalised those who relied on borrowed money to replace old equipment. The combination of increased costs of inputs and 1998 economic crisis that hit South East Asia which is a major destination for Zimbabwe's mineral exports adversely affected performance and prices of minerals exports. Major mineral exports for Zimbabwe are gold, chrome, nickel, asbestos, zinc and copper.

Platinum which was set to be the leading mineral export has suffered a serious setback following the suspension of production at the Hartley Platinum plant in 1998 due to viability problems that surfaced a year before the company could reach planned full capacity operation. The main problems at the mine were related to geological conditions, mining conditions and depressed world prices of platinum due to huge stockpiles that were off loaded by Russia onto the market. Closure of Hartley Plant has affected employment levels and income of communities in Chegutu area who depended on jobs from the mine. *More fundamentally, the closure of the Hartley Platinum is a serious setback to hopes of Zimbabwe's mining driven export growth and economic development such as that achieved by Botswana*

Performance of gold, one of Zimbabwe's major mineral exports has suffered from depressed world prices although its production volume has increased marginally. Bullion prices have recently been seriously undermined by decisions to reduce gold reserves announced by IMF [155 tonnes], the Bank of England [25 tonnes] and the Swiss Central Bank. Other countries are also planning to offload their bullion stocks in a process that appears to de-couple eventually major currencies from gold.

Zimbabwe is the fourth largest world producer and exporter of asbestos after Russia, Canada and Brazil but the future of this sub-sector is at stake given the looming international ban on trade in asbestos on the grounds that they cause environmental problems and cancer. Value of asbestos production and exports is third among minerals behind gold and ferrochrome. So far production of asbestos is expanding and in an effort to prevent the ban on the use of asbestos in some countries, Zimbabwe has become signatory to ILO code of conduct on the safe use of crysotile asbestos alleged to cause environmental problems.

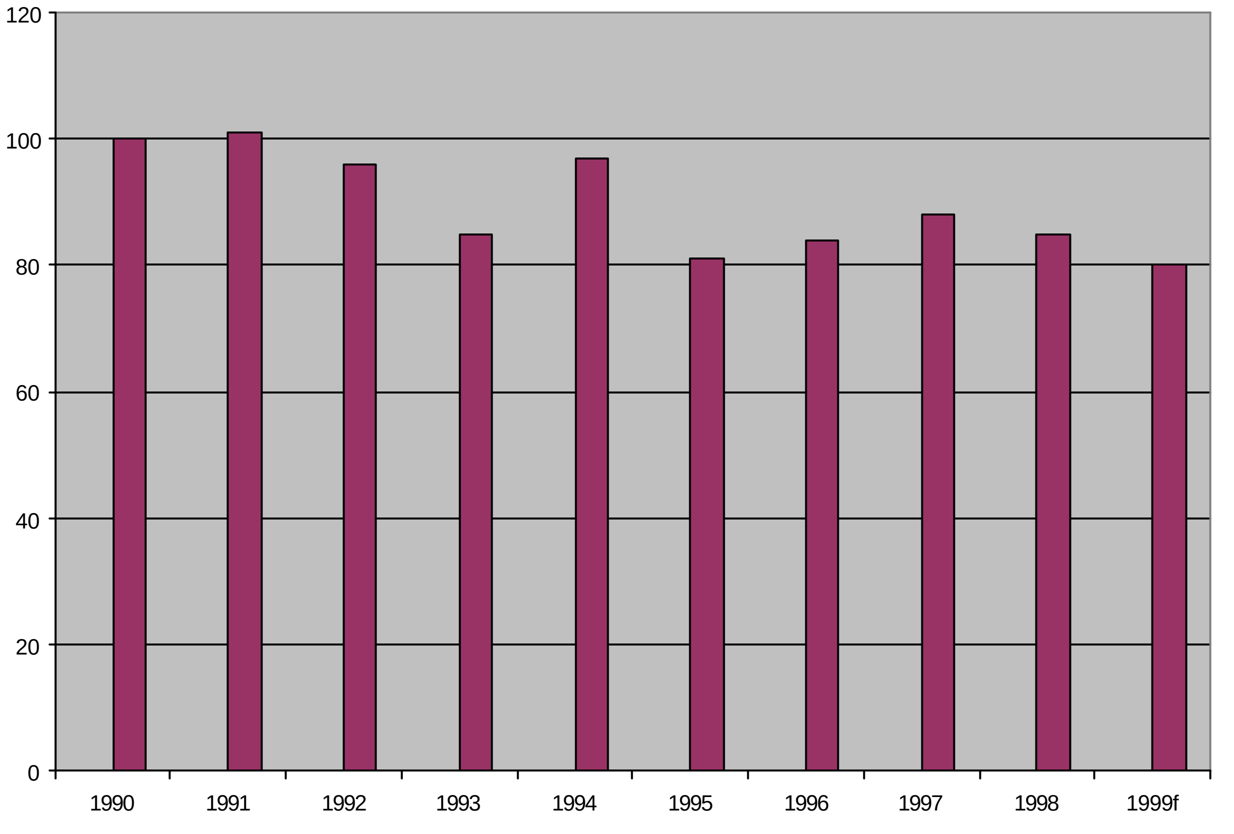
Notwithstanding these problems, liberalisation has produced opportunities for small-scale mining operators who have emerged across the whole country particularly in gold panning and emeralds mining. The process of getting a license is now much simpler, restrictions are less and government often closes its eyes on small-scale gold panners without licenses. Most of them were retrenched following the poor performance of the formal mining sector. Small-scale mining provides great opportunities, i.e. job incomes for communities that reduce poverty and enhance human development. However, a number of those involved in this industry are children of school going age that seriously affects human development. Women are also actively involved in small-scale mining. Similar to the situation of small-scale farmers, small-scale miners are exploited by middlemen who take advantage of the distance from points of mining and points of sale.

2.4 Manufacturing-the main casualty of trade liberalisation

Manufacturing was the most protected sector before the trade reforms and apparently liberalisation has had the most negative effects on this sector in the form of de-industrialisation. In 1997/87, manufacturing’s share of GDP had fallen to less than 16% for the first time since 1960 compared to an average of 25% in the 1970-80s. The sector has completely stagnated since the introduction of ESAP and relaxation of import controls. Manufacturing value added that peaked in 1991 has fallen by 12% in the last 7 years and its forecast to decline further. The high interest rates and cost of foreign currency have penalised manufacturing to an extent that even good rains that usually stimulate manufacturing growth will not manage to stir recovery of this sector. The slow down in manufacturing output was largely attributable to the weak performance of textiles, clothing footwear, wood and furniture, paper, printing and publishing and transport and equipment. Moderate growth was registered in foodstuffs, drink, tobacco and non-metallic mineral products.

Manufacturing production index [1990 = 100] indicates a decline in output of more than 20% since trade liberalisation commenced 9 years ago. Figure 1 below clearly shows that manufacturing production has been the main victim of liberalisation policies introduced in 1991.

Figure 1 Manufacturing production index [1990 = 100]



2.3.1 Manufacturing Export Performance

Three major outcomes relating to manufacturing export performance [based on table 2 below] emerge during the ESAP period;

1 First, agro-processing emerges as high growth sub-sector between 1990-95 with dairy products recording, 18.5% average growth, meat products, 21%, grain foodstuffs, 40.2%, other foodstuffs, 11% and beverages, 86.2%. This indicates the potential of Zimbabwe's agricultural base to generate export competitiveness in an open market economy and in the absence of serious externalities.

2 Second, traditional and high technology industries emerge as low growth sub-sectors. The worst performance among traditional exports are iron and steel, 21% *negative*, ferro -alloys, 6.7%, textiles, 7.3% and clothing, 11.2%. High technology exports such as machinery, electrical machinery and transport equipment experienced slow growth revealing Zimbabwe's technological weaknesses.

3 Finally, resource based manufactured exports such as metal products, leather, hides, wood and furniture responded positively to economic liberalisation. Exceptional growth of 130% for jewellery exports is a result of the very low initial base as revealed in the table.

Table 2

Zimbabwe's Exports of Manufactures 1990-95

Product Group		***Value***	***million US $***				***Growth rate***		
	1990	**1991**	**1992**	**1993**	**1994**	**1995**		**1990-95**	
Cotton Lint	*87*	*63*	*27*	*24*	*60*	*51*		*-10.2*	
Refined Sugar & honey		12	6	5	.1	8	14		4.3
Ferro Alloys	155	123	113	99	114	214		6.7	
Iron & steel	*56*	*51*	*51*	*61*	*24*	*16*		*-21.8*	
Meat Products	5	8	10	13	12	12		21	
Dairy Products		5	3	4	9	10	12		18.5
Grain Products		7	7	8	29	26	40		40.2
Other Foodstuffs	13	11	14	17	23	23		11	
Beverages	0.2	2	2	13	3	3		86.2	
Tobacco processed	6	6	6	9	17	11		12.4	
Textiles		*44*	*48*	*60*	*61*	*76*	*63*		*7.3*
Clothing	38	41	51	50	67	65		11.2	
Footwear	5	8	10	13	12	14		21.7	
Leather, hides etc	13	14	18	14	19	27		16.5	
Wood products		9	8	13	21	31	38		34.3
Furniture & fixtures	6	6	8	14	31	21		31.3	
Paper, printing Stationery	7	6	8	25	26	18		19.0	
Rubber products	*3*	*3*	*4*	*5*	*3*	*5*		*8.7*	
Chemicals & plastic	26	28	39	41	60	51		14.8	
Petroleum & coal products	9	5	4	7	12	22		18.2	
Non Metallic min products	*15*	*12*	*11*	*14*	*15*	*17*		*2.5*	
Metal products		24	25	23	39	39	53		17.1
Machinery	10	8	7	5	11	14		7.2	
Transport Equip	*28*	*10*	*17*	*15*	*26*	*23*		*-3.2*	
Electrical Machinery	16	10	14	11	13	27		6.5	
Art Works	6	5	7	9	12	15		20.3	
Jewellery	0.4	0.6	1.7	13	16	28		130.1	
Other manufacturing	*18*	*14*	*13*	*3*	*6*	*7*		*-18.1*	
Total Manufacturing		**623**	**533**	**546**	**634**	**751**	**898**		**7.6**
'Pure Manufactures'	***313***	***289***	***349***	***450***	***544***	***602***		***13.9***	

Pure manufactures exclude the first four products.

Source; Adapted from product categorisation by Zimconsult, based on Zimtrade SITC3/8 data and CSO export figures in the Quarterly digest of Statistics. September 1997. Harare

Several internal and external economic environmental factors have had profound effects on the export performance of the manufacturing sector and these include;

First, manufacturing industry in Zimbabwe is infant and un-competitive given protection it received prior to 1990. Firms had a guaranteed domestic market and also concentrated on foreign markets which come mainly as a result of past colonial arrangements such as the Rhodesia –South Africa trade agreement and Lome Convention. To a greater extend this background became a serious weakness for the firms as witnessed during the reform program introduced in 1991.

Second, ESAP adopted in 1991 brought new challenges for exporters which include; removal of export incentives in 1993, withdrawal of the cotton lint subsidy in 1994 and borrowing difficulties resulting from high interest rates. The industry also suffered from successive currency depreciation of the local currency that culminated in the exchange rate crisis on November 17, 1997 [Black Friday] and 1998. The 1992 and 1994 droughts worsened the problem of the industry in view of the vertical dependency of some manufacturing sub-sectors such as grain processing, sugar refining, meat products diary, tobacco processing, textile and clothing industry on good agricultural performance.

Third, the international environment particularly for textile and garment industry has become extremely hostile in view of the competition ushered in by the phasing out of the Multi-Fibre Agreement [MFA][1]. The system insulated Zimbabwean exporters from competition by providing selective preferences for textile and clothing exports of some developing countries into developed countries markets but it has come under strong criticism from major exporters of garments among developing countries such as China, India, Brazil and others.

Further, competition on the domestic market has increased following the removal of import license requirements. For clothing firms much there has been considerable competition from second hand clothes. Flea markets mushroomed countrywide flooding the domestic market with second hand clothing [zitye]. On the other hand, some large intermediary firms switched to mass wholesale of imported fabric. Several clothing and textiles firms went under and Zimbabwe Congress of Trade Unions estimates that over 15 000 people in clothing and textiles lost jobs over the past 5 years since 1992.

Finally, the continuous depreciation of the local currency and recent tariff increases have made imported inputs necessary for manufacturing for exports expensive. Competition from finished products has also intensified. Contrary to this experience a study of 9 African countries showed that currency depreciation played a key role in increasing exports of manufactured goods.

In conclusion, the manufacturing sector is an engine of export lead economic growth, a vehicle for employment creation, human development, poverty alleviation, industrialisation, indigenisation and small enterprise development. Zimbabwe has been acknowledged as having a relatively diversified manufacturing industry supplying a wide variety of products. It also boosts of abundance of young literate, highly educated, trainable and potentially very productive labour force. A wide variety of manufactured goods are produced. The manufacturing sector should capitalise on these advantages in their drive to expand and maintain their export markets share.

[1] *Under the MFA, bilateral annual levels of export are established by an exporting developing country and importing developed country through mutual agreement in case of specific textiles and clothing products. Growth rates and certain flexibilities regarding the use of the individual export levels are also established by mutual agreement. These flexibilities are: Swing, i.e. the use of the export quota of one product partly for the export of another product; Carry over, i. e. the use of this year's quota partly during the next year; and Carry forward, i. e. the use of the next year's quota partly for this year. Disputes between members of the MFA are considered in a body called the Textiles Surveillance Body [TSB]. This special arrangement continued till the coming into force of the WTO agreement on 1 January 1995 and will be fully integrated into the WTO by 2005.*

3 Zimbabwe and Competition in world markets

Market positioning can be assessed by seeing whether a country is competitive in dynamic products in world trade. For example, a country is competitive if its export of the product in question are expanding their shares in the world faster than the world average. Note that competitiveness here is defined in a dynamic sense, of changing market shares, rather than statically (of simply being able to export). The size of market share is also important indicating possibilities for further expansion. Ceteris paribus, a country that already has large market share in a product cannot expect large increase in the share and a country in producing and trading in dynamic products should be able to expand total exports faster than one that is competitive in static products or is not competitive in dynamic ones.

3..1 Does Zimbabwe have revealed comparative advantage?

We use the revealed comparative advantage (RCA) indices for 1990-98 to determine Zimbabwe's relative export shares in world trade so as to determine raising and falling stars [exports]. The RCA index can be calculated by dividing a country's share in the exports of the given commodity category/product by the share in the world exports. By the use of such indices it can become possible to establish as to which products of a given country have revealed comparative advantage most.

$$RCA_{i.j}{}^{1} = \frac{E_{i.j} / E_{tot.j}}{E_{i.\,world} / E_{total.world}}$$

Where

RCAij	-	are j country's revealed comparative index for product group i
Eij	-	are exports of products i by exporter j
E tot	-	are total exports

The results of the analysis is shown in table 3 below. We capture Zimbabwe's total exports covering 8 years from 1991 to 1997. The choice of 1991 was designed to coincide with Zimbabwe's adoption of outward oriented economic reforms. Since Zimbabwe no longer uses trade distortive instruments, (export incentives and production subsidies) we capture both primary and manufactured exports in our analysis)

From the figures in Table 3, we observe a general deterioration in RCA indexes from 1991 onwards meaning loss in Zimbabwe's comparative advantage. This pattern is particularly noticeable for agricultural exports than for manufactured exports. It is noticeable that some products have positive indices e.g.. tobacco, refined sugar jewellery, furniture and leather products while the rest have negative signs. Products that gained comparative advantage in terms of turning from negative RCA indices to positive RCA indexes are refined sugar and honey, dairy products and jewellery. A more disturbing observation is the falling trend in RCAs indexes with some of them turning from being positive to negative e.g. for textiles and footwear. Generally many products whose RCA indices were negative in 1991 have failed to turn around the position but rather they have gotten worse. Tobacco stands out as one most important product in which Zimbabwe has significant rising comparative advantage as shown by high and positive RCAs indexes.

Table 3. RCAs Indices in Zimbabwe's Exports 1990-97 (1990=100)

Sector	1991	1992	1993	1994	1995	1996	1997
Tobacco	40	62	42	55	77	129	75
Maize	-9.4	-20.09	-13.86	-4.4	-15.13	-16.37	-12
Coffee	-8.11	-9.96	-12.41	-11.99	-10.09	-9.73	-9.03
Nickel	-6.6	-3.1	-51.5	5.5	-23.6	-33.6	-31.6
Cotton lint	-2.8	-10.9	-10.6	-1.7	-6.2	-5.7	-4.1
Refined sugar & honey	-0.66	-0.94	0.26	-0.33	0.32	0.39	0.54
Iron and steel	-1	0	0.2	-4.5	-5.4	-4.6	-5
Meat products	-0.84	-1.1	-0.73	-0.73	0.65	-1.02	-1.02
Dairy products	-0.17	0.36	2.67	0.33	0.7	0.33	0.3
Beverage industry	-0.35	0.09	0.4	-0.19	0.06	-0.35	-0.18
Tobacco Manufactured products	0	0.2	0.6	1.4	0.4	0.5	0.9
Textiles	1.3	3.3	2.3	-0.7	1.3	-0.2	-3.3
Clothing	-9	14	11	14	9	-1	-11.7
Footwear	1.22	0.62	0.29	0.4	0.5	0	-0.25
Leather, hides & leather products	2	4.9	9.7	7	8.8	6.1	6.1
Furniture & fixtures	0	0.2	0.6	1.5	0.7	0.6	0.8
Jewelry	-1	-0.75	1	1.25	1.6	2.75	3.75

Sources: *The indices were calculated using International Trade Statistics Yearbook figures 1993-1997.*

3.2 Which are Zimbabwe's raising and falling stars?

From these results we move on to categorise sectors as rising stars/dynamic products, rising stars-falling market share, falling stars/yesteryear products and falling stars –falling market share using the indices in Table 3 above. The analysis of market positioning is now conducted in terms of exports to the whole world.: (UNCTAD: Trade and Development Report 1999)

- "Rising stars": exports with strong competitiveness (i.e. rising world market share)in dynamic products, which are growing faster than total trade. This is clearly the most desirable, or 'optimal', export positioning.

- Rising stars-falling market share: exports with rising market share in non-dynamic products. This indicates relatively weak positioning, since competitive advantages are concentrated where they may not yield the highest growth rates.

- Falling stars/yesteryear products: these are products with competitive declines (falling market shares) in dynamic products. These show the country's inability to develop advantages in dynamic products and technologies. They are lost opportunities and in the weakest market position.

- Falling stars-falling market share: exports that are losing market share in a non-dynamic product. They also called retreat products for the some possibility of restructuring away from a weaker position.

Competitiveness is thus defined as being able to expand market share than mere exporting activity and a country or sector is competitive if its products are expanding their share in the world market and a product is dynamic if its trade is growing faster than world average. Below in table 4 products are categoried as rising [dynamic] and falling [non-dynamic] stars. A country that has a comparative advantage in a dynamic product should be able to expand total exports of that product faster than that is comparative static. For example, tobacco is a rising star because its market share increased by more than that of the total exports of Zimbabwean products over the same period, 1991 – 1997. A combination of the RCA and rising stars approach provide the following insights.

Table 4. Categorisation of exports according to rising and falling stars approach

Rising stars/dynamic products: *Highly competitive* *Export growth is greater than average growth of total exports* *Rising market share in the world*	**Rising stars falling market share** : *Growth of exports but falling market share* *Less competitive in exports of dynamic products*	**Falling stars / yesteryear period products :** *Yesteryear products* *Rising market for products* *Low growth of exports compared to the growth of total exports* ***Less competitive***	**Falling stars – falling market share :** *Falling market share* *Non-dynamic* *Low rent products* ***Traditional exports***
Tobacco	Refine sugar	Textiles	Coffee
Jewellery	Beverages	Clothing	Meat
Leather		Iron and Steel	Maize
Dairy			Nickel
Tobacco manufactured			Foot wear
Furniture & fixtures			Cotton

The main observation from the table above is that Zimbabwe's raising star is tobacco and a few manufactured products while the majority of manufactured products are falling stars.

For comparison, a UNCTAD [1998] analysis of export competitiveness using the raising and falling stars approach revealed some fundamental problems in product mix for Sub-Sahara countries. The study concluded that over the period 1985-95, SSA exports are dominated by 'retreat products i.e., falling stars and less dynamic products of yerster year with only 13% of the export mix being dynamic and rising stars. Improved market access condition under Lome Convention did not lead to desired shifts in exports structure. This is in sharp contrast to the situation of NICs who have increased their share of dynamic and competitive exports from 19% to 51.% in 1995 using a portfolio of 62.% of non-competitive but dynamic exports in 1985. Figure 2 below summarises the results and comparison.

Figure2 **Export Dynamism and Competitiveness of**

Sub-Saharan Africa 1985-95

RISING STAR [competitive]		FALLING STARS [competitive]
1985	2.3%	21.6%
1995	9.2%	26.8%
RISING STARS [uncompetitve]		FALLING STARS [uncompetitive]
1985	13.3%	62.8%
1995	12.7%	51.3%

NICs 1985-95

RISING STAR [Competitive]		FALLING STARS [competitive]
1985	19.9%	8.3%
1995	51.6%	6.8%
RISING STARS [uncompetitve]		FALLING STARS [uncompetitive]
1985	62.8%	9%
1995	37.7%	3.9%

Source. UNCTAD [1998] Trade and development report, 1998, pp. 203-204

Using the same approach and specifically for Zimbabwe products in the rising stars dynamic category include cut flowers, jewellery and handicrafts while the rising star non-dynamic group includes dairy products, meats, grain and beverages while the falling stars non dynamic exports category comprises iron and steel, clothing and textiles. A study by the Commonwealth Secretariat [1997] using the same approach concluded that a quarter of Zimbabwe's exports are dynamic [rising stars plus lost opportunities] but most of them are labour intensive and therefore vulnerable to competition from new entrants. Zimbabwe's position is better than most other African countries, India and Pakistan but inferior to the position of Sri Lanka, Chile Bangladesh and the NICs, Sanjaya Lall, Ganeshan Wignaraja, Mike Sellek and Peter Robinson [1997]

3.3, Immesirising Growth and deterioration of Prices of Commodity exports

One of most serious problems affecting Zimbabwe's trade performance is the continuous deterioration in terms of trade for primary and agricultural commodities over a long period. Table 6 below clearly illustrates that world prices of Zimbabwe's commodity exports have been on a downward trend. With the exception of sugar, prices of all major exports are below their 1990 levels with nickel having almost halved in price in US dollar terms. According to IMF's index of non-fuel commodity prices, the index fell to its lowest in 20 years in July this year. The only consolation for Zimbabwe has been the steep fall in fuel price, which reduces pressure on its import bill.

Zimbabwe like other African countries has failed to realise rents from primary commodity production and trade due to; fierce competition from other developing countries, introduction of substitutes induced by technological developments and the monospony behaviour by major clients of these products. Barriers to entry in the factor and product markets in primary and agricultural production are minimal such that numerous producers compete to dispose their products at low prices to a very small group of buyers who have become price givers. This means that in normal situations [without natural disturbances] price of the products will never exceed the discounted total costs of production. "A good case for this is sugar, much of which is sold on the global market at prices barely covering the variable costs of growing and processing it. In cases where entry into the market by other producers is restricted such as under the Lome Convention commodity protocol [sugar, beef and banana]. Zimbabwe and other ACP countries within the Lome Convention derive high rents from exporting commodities under the protocol regime.

It should also be noted that high unemployment levels in Zimbabwe currently estimated at over 50% reinforce labour intensive production [primary and commodity production] at the expense of diversification into technology intensive production where rents are higher. Deterioration in world prices for these commodities has a direct impact on the welfare of the nation because most people are employed in primary commodity production chain. For example, the continuos decline in prices of Zimbabwe's major exports [table 5] i.e., tobacco, tea, gold, iron ore nickel and other commodities has affected farm workers, miners and small scale farmers and informal operators who are the preponderance in Zimbabwe.

Table 5 **World Commodity Prices for Zimbabwe' Major Exports**

COMMODITY	**1980**	**1985**	**1990**	**1991**	**1992**	**1993**	**1994**	1995	1996	1997
Cotton (c/kg)	284.3	192.1	181.9	164.1	199.9	120.4	160.0	178.5	155.3	162.2
Tobacco ($/mt)	3.160.9	3.807.3	3.392.2	3.424.7	3.226.6	2.535.6	2.399.0	2.214.3	2.671.0	3.277.1
Coffee (milds) c/kg	481.4	471.0	197.2	183.3	132.4	146.8	300.2	279.6	235.9	386.9
Tea	250.3	263.6	205.1	167.9	159.8	157.8	143.1	128.1	147.9	195.0
Maize	174.0	163.6	109.3	105.1	97.8	96.0	97.6	103.6	145.2	108.7
Beef (c/kg)	383.3	314.0		260.6	230.3	246.3		159.7		
Sugar EU (c/kg)	67.6	51.1	58.3	59.9	58.9	58.3	56.4	57.7	59.9	58.2
Sugar US (c/kg)	92.0	65.4	51.3	46.5	44.1	44.8	44.1	42.6	43.2	44.9
Sugar World (c/kg)	87.7	13.1	27.7	19.3	18.7	20.7	24.2	24.6	23.1	23.3
Iron Ore (c/DMTU)	39.0	38.7	30.8	32.5	29.6	26.5	23.1	22.6	25.0	26.8
Nickel ($/mt)	9.053.8	7.141.5	8.864.1	7.980.0	6.567.8	4.979.7	5.753.0	6.902.7	6.568.0	6.430.9
Copper ($/mt)	3.030.6	2.066.2	2.661.5	2.288.5	2.139.9	1.799.7	2.093.8	2.462.8	2.010.0	2.113.6
Asbestos								730	728	728

Source. UNCTAD [1999] Trade and Development Statistics.

4 Informalisation of Trade - the Case for Informal Cross Border Trade

4.1 Informal cross border trade - – A Survival Technique

One of the direct outcomes of trade liberalisation was the upsurge in informal cross border trade and consequently the level of Zimbabwe's trade with the region is grossly understated due to the failure to capture the size of informal cross border trade which is now widespread and has been growing for over a decade. Conceptually, informal cross border trade includes merchandise that crosses borders without being recorded officially as well as under-invoicing and under-declarations (Ackello-Ogutu, 1996). It is difficult to measure accurately because some of the traders use unofficial routes such that their numbers are not captured in official statistics and where they use official customs ports they often declare that they are going abroad on holiday when in fact their objective is shopping.

In view of the deteriorating macro-economic environment in Zimbabwe, informal cross-border trade is viewed as a viable activity [particularly in comparison with rural farming] that generates employment, supplement income, to improve food security by households and a means for improving living standards. Other factors enhancing informal cross border trade are stringent and bureaucratic formal cross-border controls, liberalisation of exchange controls, democratic changes in South Africa, economic prosperity, social and political stability in neighbouring countries in contrast to the worsening economic hardships in Zimbabwe.

4.2, New Trends in informal Cross-Border Trade

Cross-border trade draws its origin from pre-colonial period when communities and peoples of the region interacted and traded without the need for formal registration of such trade. With erection of borders this trade was made illegal, tariff and various non-tariff barriers were imposed thus disrupting economic activities of the communities particularly those living along border areas. Informal cross border trade re-emerged after independence in the mid 1980s with people going to Botswana and after SA's democratic change informal cross border trade has become more popular. In the 1980s this form of trade was despised because it was associated with low-income earners and unemployed poor people who had no alternative means of living. Due to economic conditions it is no longer the unemployed alone who are engaged in this form of trade and Zimbabwean informal traders have widened their coverage to include South Africa, Botswana, Mozambique, Zambia, Malawi and Namibia. The following information in table 7 relating to travel to South Africa [the main destination for informal cross border traders] was obtained from the SA High Commission in Harare at the beginning of December 1999.

Table 7

Number of visas issued per day during peak season	+ or - 900 per day
Number of visas issued during off peak periods p/day	+ or - 800 per day
Are there more men or women travelling to RSA?	2/3 are women
Which is the most common reason to travel to RSA	Shopping , holiday and work
Which age groups travel most to RSA	25-40 years
What's the main reason for refusing a visa to RSA	Lack of funds required
What is the main requirement to get visa	Minimum of Z$6000.00

It is observed that people involved in informal cross border trade are mostly women in their active working age. The volume of movement depends on a number of factors such as: the market opportunities, the exchange rate, the ease of getting a visa, visa fees, resources at the disposal of the trader, the economic and political conditions prevailing in the trading partner economies. Traders also look at the local marketability of the goods obtainable in the neighbouring countries and recently some traders who can afford airfares have been travelling as far as Dubai. Most women export crotchets in exchange for mink blankets in South Africa, kitchenware and jewellery while Zambia they bring in imported sandals, dress material and handbags which still have a favourable market in Zimbabwe.

4.3, Informal Cross-Border Trade - more positive than negative gains

Employment creation. Informal cross-border trade has both positive and negative impact on employment. On one hand, by engaging in cross border trade people who otherwise have no jobs become gainfully employed and in turn a chain of other service providers such as transport and commuter operators get jobs where otherwise these operators would be unemployed. Another good example in Zimbabwe are the sellers at flea markets who are hired by employed people to sell wares where otherwise these young boys and girls would be unemployed. On the other hand, cross-border trade has indirectly contributed to closure of some local firms particularly in clothing leading to retrenchment of labour. It is not very clear however, whether the level of employment created by cross-border trade can compensate for the lost jobs when local competing industries wind up. Further, conditions in informal and formal employment are very different largely because in the former there are no fringe benefits and job security depends on economic conditions and the seasonality of business particularly with flea markets where business booms during times of bonuses and back pays.

Enhancing household incomes and foreign currency reserves. With the unstable and deteriorating macroeconomic conditions in Zimbabwe, real incomes have been declining in the 1990s forcing everyone in formal employment or unemployed to seek supplementary or new sources of income. In high density areas the most common means for supplementing incomes include catering, carpentry, sewing and metal work and when such activities are oversubscribed people move into cross border trade. Some families and unemployed people depend on this source of income even for school fees and other expenses. According to Maggie Chivese, a single mother who has been in this industry for over 5 years *"In good months such as in the festive season I make over $25000-00 a month from flea market sales or $5000.00 'clean money' which otherwise I could not get if I was sitting at home or trading locally"*. Informal cross border traders also reduce the pressure on foreign exchange resources by selling handicrafts in SA and then using the proceeds to buy imports for sale locally. In some cases it is profitable to bring foreign currency than goods. Thus, women engaged in informal cross border trade do not only enhance household incomes but generate foreign exchange that is very critical for the country

Responding to food insecurity. Through increased incomes and importation of some foods, cross-border trade has improved food security for a number of households. Instead of attempting to be food self sufficient by relying on own harvest which in turn depend on whether rains are good or not, some families are focusing on generating income from informal cross border trade. In times of drought, traders living in border areas procure foodstuffs from neighbouring countries to supply local markets. Informal cross border trade has enhanced availability of a wide variety of foodstuffs and other commodities through imports of food varieties not available locally. Local buyers of the imported goods have access to quality and relatively cheaper commodities.

Alleviating poverty. The impact on poverty alleviation is controversial. By raising employment levels, cross-border trading helps alleviate poverty among the poor and also cushions the employed by supplementing their incomes from the harsh economic conditions. On the other hand, people who loose jobs as a result of competition generated by ICBT become impoverished and the number of such people is substantial particularly following the winding up of big clothing, textile and kitchen wares firms in the past 5-7 years. However, what is not clear is the trade off between levels of employment that cross-border trade is creating on an annual basis and the jobs that are lost in the competing industries over the same period.

Government is losing revenue. Trade policies that rely on high tariffs to generate revenue for the state induce people to seek ways to avoid and evade such duties through various means [under declarations, hiding and using border points unmanned by public officials] thereby forcing people to shift from formal to informal cross border trade. Instead of collecting more revenue, government ends up less revenue. On the other hand, local authorities benefit from the increased demand for flea market space by informal traders for selling their imported products.

Empowerment of women. Cross-border trade is a source of economic empowerment to a large number of Zimbabwean women who can not be absorbed in the formal labour market. Previously these women relied on the sale of farm produce with very low returns after labouring a whole agricultural season. With informal cross border trade and particularly during the festive season on average a woman trader can earn over $12 000-00 per month which is enough to pay school fees whereas if she had to sell grain, nearly 3 tonnes of maize [far beyond the average annual harvest of most communal farmers] would be needed to realise the same amount.

4.4, Problems with Informal Cross-Border Trade

The above analysis has certainly argued that informal cross border plays a very important role in moderating economic hardships, reducing poverty and enhancing welfare and human development in Zimbabwe. However several problems work against viability of this trade and these include;

- Continuos depreciation of Zimbabwean dollar worsened conditions for cross-border traders who now face increased import prices that translate into increased domestic prices and thus reduced profit levels and marketability of the goods.
- Border crossing conditions that remain tight and unfavourable to informal traders to an extent that life has been lost in trying to jump the border into SA.
- Visa requirements for entry into SA are prohibitive. Several documents are required; letters of invitation from in SA, proof of financial resources to the tune of $6000-00 in the form of a bank statement and women are required to produce marriage certificates. Visas for SA are only obtainable in Harare and the applicants are expected to present in person and sometimes applicants have to make several trips to Harare in order get a visa.
- The local authorities have allocated a number of flea market stands in town but the daily fees charged [at about $200-00 per day] in most flea markets in Harare are too high to make business profitable. Further, institutional support provided to the traders is virtually absent.
- Informal cross-border has produced economic refugees in neighbouring countries particularly in Botswana and South Africa where negative attitudes about Zimbabweans have firmed. Recently SA expelled over 30000 Zimbabwean immigrants accused of all sorts of illegal activities.

5. Some Sub-sectoral Case Studies on the impact of trade liberalisation

Economic reforms were intended to create a deregulated economy characterised by high investment, external trade and fast track the growth of business. This program opened up avenues for a broadening of the production base with the informal sector playing a major role. Informal businesses mushroomed in various areas such as: manufacture of textiles and clothing, hand-knitted woollen products, leather and footwear, wood work and furniture, manufacture of building material and tools, manufacture of chemical products, hand crafts (pottery, basket weaving, crochet, copper and silver), vegetable processing, packaging and selling, jewellery manufacture from gold, silver and minerals such as platinum, professional consultancy, cutting and polishing of precious stone, repair and assembly of electronic and electrical goods, etc. In this section we examine in greater detail the impact of liberalisation in 4 most common and visible informal operations; furniture, textile and clothing, metal work and handicraft.

5.1 Woodwork and Furniture – More gains than losses

The wood and furniture subsector is one where there have been more gains than loses from liberalisation. This industry was established in Zimbabwe in the 1940s and since then there has been considerable growth and diversification. The sub-sector produces a wide range of high quality products such as hand carved wood furniture, modern office furniture, home furniture in all its types, kitchen furniture garden furniture and school furniture. Today the industry is dualistic in nature. There is traditional formal sector and a host of new emerging carpentry shops located in the so-called 'home industrial sites' designated not long ago to cater for the needs of small-scale operators. In the formal set-up, a few large corporations [Adam Bede, Tedco, Harlequin furniture Manufacturers, Futurama (Pvt.) Ltd., Wilgro Export (Pvt.) Ltd., Home Furnitures (Pvt.) Ltd., Sterling Furnishing Company (Pvt.) Ltd., Unity Woodworking and Mirco (Pvt.) Ltd.] dominate the industry with the majority being old and family run and owned. During the period prior to reforms, the furniture industry produced mainly for the local market as a substitute for imports. The local market was so small that the manufacturers were forced to produce in small volumes though in wide range of products.

Economic reforms have had very contradictory but largely positive effects on the industry namely emergence of a vibrant informal sector, initial improvement in the viability of the formal sector and lately a slide in performance due to harsh macroeconomic conditions.

One of the main outcomes of trade liberalisation was the growth in informal furniture manufacturing operations in cottage and so called 'home industrial sites' which now employ a large number of people and supply a significant share of furniture to the domestic market at affordable prices to consumers. Two factors explain this outcome; the setting up of several tertiary training institutions on carpentry coupled with inability of the formal sector to absorb the new graduates and those retrenched from the formal sector. Second, furniture making is profitable as well as flexible such that much of the furniture in home industries is made as per order and to meet specific customer demands. In a some of cases and to supplement incomes formal sector employees started by running own informal furniture operations and employing new job seekers before finally moving full time informal. Because of the high skills level and experience the products of this sector are very high quality, unique design yet low priced. However, the informal operators are facing a number of problems particularly in getting shelf space in big retailer or wholesaler outlets and access to cheap working capital.

The formal domestic market appears to be exceptionally sensitive to the conditions of the economy, which in turn depend on the agricultural season and economic environment. The industry, therefore, tends to be subjected to wide ranging booms and slumps. Further, it is somewhat at the mercy of the local timber industry as import tariffs make it difficult for the industry to source timber form outside. There appears to be no immediate threat to the industry from imports.

However both the informal and formal furniture sectors are facing a number of problems some of which are related to liberalisation. First, due to technological advancement new substitutes and new input materials that compete with furniture products are constantly being introduced such as plastics, high-density fibreboard and new fabrics. Second, while liberalisation has removed foreign currency rationing allowing firms to import new technology and equipment its unavailability and costs have become prohibitive factors. The high cost of money does not allow new investments in capital using borrowed money. Increased importation together with increased number of players because of black empowerment program intensified competition, which has had the effect of pulling down profit margins in both the formal and informal sector. Further, the lack of foreign currency is affecting some operators who use special type of timber imported from outside. Also material imports for production of furniture for the local market are taxed and dutied. In addition, the sub-sector is affected negatively by a cumbersome and bureaucratic system of duty draw back and bonded warehouse system such that very few manufacturers are keen to take advantage of these instruments.

5.2 Textile and clothing – Losses and losses

This sector is specific in nature. First it employs the highest number of women in the formal sector. Second it accommodates low skilled labor and the operations are easy to learn, as they do not require high education. Third the sector ranks among the leading employer among manufacturing sector. Further the sector was the most protected prior to reforms and as a result clothing and textile industry was one of the hardest hit by trade liberalisation.

The reform program invited immense competition from foreign players, which had been suppressed by the import protection policies. Zimbabwean firms now face competition both at home and away and its set to intensify with the phasing out of the multi-fibre agreement in line with the WTO, and also in line with SADC and COMESA trade agreements. Economic reforms have hit both large and small firms, local and foreign owned firms. The only difference is that firms that focused on servicing the domestic market were hit harder than those that focused on export market. Most textile and garment exporters in Zimbabwe are local firms, with the larger ones, the export oriented and able to cope with domestic import liberalisation. Smaller firms and firms generally specialising in the lower end of the clothing market have been badly affected by increased imports of second -hand clothing as liberalisation invited greater participation of informal traders, whose activities competitively threatened the survival of some companies. Second –hand clothing are traded at affordable prices for many poor people and flea markets are flourishing. At flea markets such as “mupedzamhamo” [literally translated as ‘ end poverty’] you can buy a reasonable looking second hand adult shirt for less than US$1.00 and a trouser for the same price. Sale of second hand clothes is no longer restricted to specialised places in urban centres alone but has spread to farms, rural centres, growth points, villages as well as in front of big shops threatening viability of these shops as customers opted for cheaper clothing.

The industry was caught by trade liberalisation measures at the wrong time, which explains the severe damage suffered by the industry. Immediately preceding the launching of the ESAP program the textile and clothing enjoyed many benefits such as high protection, and attractive incentive package, preferential market access in the EU and South Africa all of which were eroded with liberalisation. Further managerial and administrative skills were low and outdate, technology was not upgraded because of lack of foreign currency while the macroeconomic policy environment was not business friendly. Their only advantage laid in low cost labour, which was commensurate to skills levels and productivity. After the reforms a few firms managed to access forex necessary to upgrade production technology modernise equipment but the surging interest rates and inflation rates penalised those who invested using borrowed money.

Another factor that affected textile and clothing performance is the expiry of the 1964 preferential trade agreement between Zimbabwe and South Africa in 1992. South Africa the textile traditional trading partner did not renew its bilateral agreement with Zimbabwe because it wanted to protect its local firms. It instead increased tariffs in textiles and this disadvantaged the Zimbabwe industries consequently closing the imports from this country. Many could not source new markets for their products in time and thus collapsed. The closure of Cone textiles alone resulted in the loss of more than 6000 jobs. Demand for locally produced commodities fell. The Zimbabwe- South Africa bilateral agreement was renewed in 1994 but with very high restrictions on textiles imported from Zimbabwe. A restrictive quota was imposed and a 50% tariff rebate on South Africa 's MFN tariff rebates. The sub-sectors continued to suffer from viability problems; the high tariffs from South Africa, the steeply rising cotton lint, high interest rates, increased indebtedness, depressed local demand, protectionist measurers in some in some of Zimbabwe 's important export market and competition from illegal or dumped imports of fabrics and second –hand clothes and clothing onto the domestic market have already forced closure of some factories.

The current outlook of the textile and clothing sector is characterised by rationalisation of production, cutting down on production levels, reduction of workforce, low capacity utilisation, company bankruptcy and closures. This year [2000] over 50 formal firms closed down. A few examples illustrate the desperate situation of the sector. Recently, Merlin Limited sought liquidation due to deteriorating financial problems. It was weighed down by huge debts that resulted in the company paying net interest of $41.7m last year from $20.25m in 1998 and company to source offshore funds due to poor creditworthiness. Zimbabwe Spinners and Weavers Limited, indefinitely suspended plans to raise $50 million on the Zimbabwe Stock Exchange through a rights issue. Other textile companies saw their production schedules being affected by shortages of raw materials and spare parts. Export performance also suffered because of the country's artificially managed exchange rate. For example, David Whitehead's exports in half of 1999 through to March 2000 were amounting to $64m against $215m same time the previous year. According to Confederation of Zimbabwe Industries [CZI], the number of clothing firms registered with it fell by 21.4% from 280 in 1991 to 220 by 199. Deregistration of these firms is a result of firm closures due to harsh economic conditions ushered in by the opening up of the economy.

Liberalisation of textile and clothing sectors has caused much hardship on women who have been forced out of formal employment towards informal activities such as trading in second hand clothes through informal cross border trade and making clothes and crotchets. During our field survey it was interesting to note that in down town Harare City Centre most of the multiple and double storey buildings from second to third floor are occupied by business women most of whom are into tailoring, crocheting. They are leasing one to two rooms and employ retrenches of the formal sector. Production is to order and customer specific and they do considerable subcontracting work for big firms. Crocheting and weaving of jerseys is particularly widespread among women. Those well established in this business are catering for the tourist industry, supply their products to large formal sector firms as well as export to the region. Subcontracting is also wide spread in this business. In rural areas, informal businesses are emerging in an attempt to diversify from agriculture but unlike their urban counterparts rural informal operators suffer from several viability problems such as lack of working capital, bad debts, lack of credit, poor production technology and absence of business support services. Thus , while growth of informal employment can cushion the socio-economic impact of stagnant employment, it is no health substitute for formal sector growth and sustainable development, Standard Chartered Bank, Business Trends [Sept 1998].

5.3, Craft – unique but spaghetti outcome

Most of the business activities are home based with women mainly engaged in processes such as crocheting, stone sculptures, moulding, basket and carpet weaving, embroidery, iron craft, etc. Along major roads in urban areas and across the country, 'backyard businesses' have grown tremendously to an extent that local government by-laws were relaxed to ease entry into informal sector and provide opportunities of growth to the sector. Products of this sector are numerous and high quality and mainly intended for tourists and exports. Unlike other manufactured products crafts are not usually produced in mass as they require specialised individual skills. Informal businesses and traders constitute the core suppliers of handicraft and art products exported overseas and sold to tourists. Exports of handicrafts which is usually informal provides important resources to informal cross border traders enabling them to buy foreign goods which are later sold in flea markets.

In the craft industry, relaxation of trade conditions has economically empowered most Zimbabweans who have been culturally marginalised before. Women sell handcrafted goods in neighbouring countries like South Africa, Botswana and Zambia. They get foreign currency, which they "sell" at home or purchase goods from other countries and sell locally. This form of off-farm activity raises incomes, improves living standards and alleviates poverty among families. However, culturally, there are still negative attitudes against such women, despite the incomes that they are able to raise for their families. Liberalisation has also has exposed women to international market conditions, business opportunities and linkages. In some of the business trips women have attended trade fairs, exhibitions and exchanged information with women in other countries.

5.5 Metal work – lost opportunities

The industry is composed of the growing informal sector as well as a sophisticated formal sector with ZISCO Steel as the single major player. There is a clear division between metal working activities of the formal and informal sector. Informal sector metal working firms are involved in mineral processing of ferro-chrome, non ferrous or industrial minerals, metallurgical operations such as smelting, refining, alloying, rolling and casting, foundry, forging, machining and heat treatment, assembly and subassembly of parts, components, implements, electrical machinery, agricultural machinery, and other machinery. Informal sector firms occupy the peripheral activities requiring low technology and skills such as manufacture of building materials [windows, door frames burglar bars etc], metal furniture, agricultural tools and household items general welding, scotch carts, containers, fence making, motor mechanics, etc. The sector is absorbing a large number of graduates from technical colleges, retrenches from formal sector and new entrants into the job market. For consumers and in particular poor people informal sector provides affordable products especially for the construction industry.

The industry however suffers from a number of problem. First, it still remains a largely inward-oriented industry with exports only contributing 5% of the total turnover. Second there are lags in high technical education and the technological infrastructure available is not geared to dynamic competition from foreign players. Further due to the long lags before investments in metal working equipment generate good returns the financial squeeze engendered by the harsh macroeconomic conditions are a serious setback to the industry. The informal sector operators face ca different set of problems such as lack of working space, shelf space for their products, access to affordable finance for working capital and acquisition of machinery. The major drawback confronting these people engaged in metal work is credit availability. Informal operators lack collateral security and hence no access to borrowing funds.

6 Distributional dimensions of trade liberalisation.

> ***Kurumwa nechekuchera [suffering from problems that you invited from outside] – Shona proverb*** *used by ordinary Zimbabweans to explain trade reform objectives*[2].

6.1, Effects on Consumers:

A positive feature of trade liberalisation has been the increase in the availability of a wide variety of high quality goods and services on the domestic market. Poor consumers in Zimbabwe have also benefited from the decentralisation of chain supermarkets into high-density and rural areas that have introduced massive promotional activities, advertisement and price reductions in a bid to undercut each other's prices and win customers. The removal of restrictions to accessing consumer goods has meant that real prices of basic goods have remained relatively low due to intense competition between wholesalers and retailers and between informal and formal firms and operators. For example, the deregulation of the transport sector together with the removal of foreign exchange controls has led to emergence of a larger number of commuter and goods transport operators and increased transport services between rural and urban areas. Informal businesses have expanded from the confirms of service provision [car maintenance repairs, selling vegetables, hair salons, etc] into manufacturing activities such as wood work furniture, metal works, clothing chemicals, production of building materials and others.

For example, the increase of small-scale tailoring activities dominated by women has increased competition in the clothing sector, providing tangible benefits for poor consumers. Clothing prices have gone down or at-least remained stable in real terms due to the influx of imported second hand clothing. Traders are now combining the sale of second hand cloths from South Africa, Mozambique, Zambia and other regional economies with new clothes sewn by small-scale tailors and thus increasing the choice of poor consumers and enabling them to divert their surplus incomes to other basic commodities. The following section uses case studies to assess the effects of liberalisation on some manufacturing sub-sectors

6.2 Effects on Gender:

Liberalisation has also had a gender bias. In the formal sector women have been the main victims of structural adjustment related retrenchments and worsening economic situation in the country. In such circumstances women are forced to stay home or engage in informal businesses where incomes and other benefits are minimum. According to CFU half the employees on large-scale commercial farms are casual labourers and a higher proportion of casual employees are female rather than male. It indicates that due to the imperfect labour markets it makes it difficult for female-headed households to secure the resources to undertake crop production at the same scale as their male colleagues. Export sector tends to be labour – intensive while import substitutes tend to be capital intensive. Given higher incomes in services than tradable sectors, trade liberalisation, which increases production of tradables, should result in better distribution of income.

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[2] *SAPRI research; Experiences and feelings of ordinary Zimbabweans about ESAP]* 2000.

Evidence also indicates that small-scale producers greatly benefit from economic liberalisation. However to a certain extent some positive effects of liberalisation for the weaker groups may be the indirect consequence of even more positive effects for more powerful groups. For example in the Zimbabwe cotton case, the response of the commercial sector, in particular the large scale-farmers, to low producer prices was to shift production out of cotton to more profitable horticultural production creating opportunities for small-scale farmers to expand cotton production.

Another distributional problem from liberalisation that may be an absolute rather than a relative loss arises from the differential effect of inter-seasonal price differences according to poverty level. For instance, small-scale farmers may need to sell immediately after the harvest when prices are still lowest in order to repay debts and other urgent family expenses to the extent that they are not able to meet their family consumption requirements out of own stored production. Farmers have to buy maize later in the season when food is scarce and prices are high, possibly depleting their asset base over time.

Another problem encountered is the lack of infrastructure, transport and proper storage facilities. For example in the case of tomatoes where communal farmers come a day before the actual sales begin and have to wait until the next day before selling their produce. The important aspect to note in this case is that the communal farmer may end up selling the produce at very low prices to clear their stocks given the absence of refrigerated stores at the market.

6.3. Effects of Labour

6.3.1, More Jobs were lost than created

The response of labour markets to liberalisation of trade has varied depending on the situation and performance of the different industries. According to Standard Chartered Bank Business Trends [Sept. 1998], a total of 140.000 new jobs were created in the first 7 years of 1990 at the rate of 17500 a year. Most [56000] were created in large-scale agriculture followed by education [41 000] and other services sectors [32000]. This is certainly far behind the level of new entrants into the labour market estimated in the ZIMPREST at 183000 annually. Gemini technical Reports No 25 [1991] and no 71 1994] indicate that some 196000 jobs were created in micro and small enterprise sector between 1991-93. Apart from the pressure from new entrants liberalisation has had causalities among those already in employment.

6.3.2, Who are Casualties of Trade liberalisation?

The first causalities among the labour force where those engaged in firms that supplied the domestic market and unprepared to face competition from outside. Removal of protection saw the exit of such firms during the early phase of the economic reform program and those particularly affected include textile and clothing sectors with several large firms [Cone textiles, Julie White] as well as small firms being closed and over 20000 employees laid off. The second category of labour force that suffered was employed in firms that supplied overseas markets and did so because of rents from various export incentive schemes that were in place before the introduction of economic reforms. The last causalities include workers retrenched as a result of privatisation and civil service rationalisation. This group received some compensation through the so-called social dimension fund that enabled a number of them to start their own informal business operations.

On the other hand, trade liberalisation generated opportunities for firms to access imported inputs, capital, technology, managerial and administrative skills necessary to become raising stars as they gained internationally competitiveness. This was particularly so in non-traditional export industries such as horticulture and agro processing where not only did demand for labour increase but real wages were better than in the other industries. Finally, liberalisation brought tremendous benefits to workers in the financial sector at the expense of industrial labour force.

According to the 1998 Human Development Report for Zimbabwe, market oriented economic reforms introduced in 1991 have been responsible for shrinking of labour demand, retrenchments and fall in real wages for those who remained in formal employment. There is limited capacity in the formal sector to absorb new entrants who unlike in the past have good formal training and education.

6.3.3, From formal to informal employment

Contraction in formal employment has resulted in the emergence of an informal sector that is absorbing retrenches and new entrants in the job market as well as providing supplementary incomes for those who remain in formal employment where real incomes have been on a down ward trend for a long period. Women are supplementing declining real wages, by selling food products, second hand clothes and through informal cross border trade and making clothes and crotchets.

In urban areas, 'backyard businesses' have grown tremendously to an extent that local government by-laws were relaxed to ease entry into informal sector and provide opportunities of growth to the sector. These businesses are posing serious competition to the formal sector due to its ability to adjust and offer goods at cheaper prices. For example, informal businesses and traders constitute the core suppliers of handicraft and art products exported overseas and sold to tourists. Women are running flea markets with cheaper imports from the region from resources obtained from sales of their handicrafts. Apart from service sector, informal operators in the high density urban areas are also involved in manufacturing activities such as production of metal products, furniture clothing and brick moulding and processing of agricultural products. In rural areas, informal businesses are emerging in an attempt to diversify from agriculture. They are involved in welding, furniture, dairy and service provision. Unlike their urban counterparts rural informal operators suffer from several viability problems such as lack of working capital, bad debts, lack of credit, poor production technology and absence of business support services.

Thus, while growth of informal employment can cushion the socio-economic impact of stagnant employment, it is no health substitute for formal sector growth and sustainable development, Standard Chartered bank Business Trends [Sept 1998].

6.3.4, Conflicts Broadened "Blame thy Neighbour"

It is our argument that in Zimbabwe, trade liberalisation and globalisation have produced several levels of inter and intra-class conflicts concerning the generation and distribution of economic rents and surpluses. There are conflicts between

- small and large scale capitals for better conditions of operation and survival. This conflict pervades all sectors particularly in agriculture where there is a fierce battle for land appropriation between commercial and communal farmers,

- informal and formal operators e.g., between hammer millers and millers, flee market operators and large retail shops, construction firms and small operators etc. A large number of informal operators who are competing with the formal sector have skills they received before they were retrenched. Development of small-scale firms which includes informal sector is an important objective of government indeginisation program

- consumers and government. Nation-wide riots triggered by successive increases in the price of major food products rocked the country in early 1999. The protests saw labour and employers uniting against economic mismanagement, government's inability to harness inflation and control its expenditure.

- Foreign firms and local firms. This battle has been centred around the demand by EU firms for reciprocity to replace the Lome Convention. EU firms are now faced with fierce competition world over seek to compensate for the market loss by securing preferential treatment in the ACP countries which opens local firms to more competition. To ensure access to local markets foreign firms have pushed within the WTO for introduction of disciplines such as transparency in government procurement, trade and investment measures, and general trade liberalisation

- Capital and government. A fragile relationship characterised by counter accusations and suspicion exists between big capital and government. The issue is that big firms in Zimbabwe are largely foreign owned and controlled and recently government has for various reasons [corruption, poor economic management, violation of human rights, land designation] been under serious attack from major industrialised countries.

- Labour and capital. Liberalisation amplified the historic conflict between these groups. The reforms saw the removal of restriction on labour conditions such as contracts and minimum wages. The table 8 below clearly illustrates that shifts in share of profits and wages in the national income are in favour of capital than labour. Last year's human development report highlights that this trend has happened contrary to increased labour productivity

Table 8
Share of gross profits and wages in GDP

Years	**Wages**	**Gross Operating Profits**
1980-84	**56.7**	**41.6**
1985-89	**57.3**	**40.5**
1990-96	**45.0**	**54.8**

Source Zimbabwe Human Development Report 1998, pp. 22.

7 Rethinking Trade Liberalisation - Trade Policy Reversal

Mixed results produced by ESAP played into the hands of those who initially opposed economic reforms as imposed from outside profoundly affecting continuation of economic reforms. At least government was not eager to continue with economic reforms resulting in a 2-year time gap between the expiry of ESAP program and adoption of ZIMPREST. Policy reversals were associated with several factors such as poor macroeconomic policies, deficiency in trade policies and sequencing of liberalisation, fiscal indiscipline, exchange rate mismanagement, monetary policy mix and incompetence of economic managers to understand the substance and process of trade liberalisation. The reversals are a clear admission by government of the failure of trade liberalisation and perhaps the whole of ESAP. It is therefore not surprising that compared to ESAP, implementation of trade liberalisation component of the ZIMPREST was characterised by reversals and anti liberalisation policies. Recent examples of anti-liberalisation measures during ZIMPREST are listed in the Tables 9 and 10 below.

Table 9 **Anti- Trade Liberalisation Measures**

Scope	**Policy implemented Under ESAP**	**Policy Reversal under ZIMPREST**	**Reasons**
Domestic and border trade policies	♦ Removal of import licenses, tariff reductions ♦ tariff structuring ♦ domestic price deregulation	♦ Introduction of selective price controls ♦ Increase in tariffs ♦ Import licensing on some goods	♦ Riots against price increases on foodstuffs ♦ Falling gvt. Revenue ♦ Strategic reasons
Regional trade policies and liberalisation	♦ Signing SADC Trade protocol ♦ Commitment to zero duty in COMESA	♦ Mid loading of reduction in TNF & residual tariffs ♦ Increase in tariffs on regional imports ♦ Behind schedule in COMESA October 2000 deadline .	♦ Other countries also delaying ♦ Result of Tariff rationalisation ♦ Divided allegiance between SADC & COMESA.
International policies	♦ WTO tariff binding, and reductions ♦ Compliance.	♦ Tariff bound at high levels than applied rates ♦ Applied tariffs increased	♦ Need to generate revenue ♦ Possible under WTO
Foreign exchange policy	Removal of controls on foreign exchange & remittances abroad	♦ pegging of the exchange rate ♦ suspension of foreign currency accounts	♦ excessive depreciation of Z $ ♦ shortage of foreign currency
Export incentives	Removal of export retention scheme and other incentives.	♦ Tobacco levy ♦ Introd. of export incentives in budget	♦ Revenue generation ♦ Shortage of foreign currency

In an effort to restore stability in the foreign market, curtail import pressure on exchange rate as well as generate revenue, protect local manufacturing and income redistribution, government took a turn around policy and increased tariffs in October 1998 on finished goods with local substitutes or those considered as luxuries. Duties on finished products especially vehicles, parts, furniture and shoes were increased to levels higher than pre-ESAP tariff levels (see table 2 below). Surtax applied on almost all imports was increased from 10% to 15%. In early 1999, subsequent to the rapid depreciation of the local currency, exchange rate controls were introduced to peg the local currency against major currencies and recently new controls were introduced for all foreign currency accounts. Currently Zimbabwe applies three main border taxes namely customs duties, import tax [essentially sales tax on imported goods] and a surcharge.

Table 10

Selected Tariff Increases From 1998 Tariff Structure Rationalisation Program

Item	***First Phase – pre ESAP [1991]***	***Pre-September 1998***	***Current***
Motor vehicles			
Buses	30%	25%	50%
Other commercial vehicle	65%	25-65%	95-100%
Private vehicles	65-85%	60-80%	100%
Motor vehicle parts	*30%*	*15%*	*50%*
Bicycle parts	*30%*	*15%*	*50%*
Furniture	*50%*	*40%*	*80%*
Selected shoe components	*30%*	*30%*	*65%*
Surtax on above commodities	*20%*	*10%*	*15%*

Source:Economic Vision. Commercial Bank of Zimbabwe – Page 18

Thus Zimbabwe's trade liberalisation record is mixed. First the policies have not been consistent and in some cases been reversed. Although the broad thrust in official documents has been towards liberalisation we have found several cases of trade policy reversals which actually puts the issue of Zimbabwe trade policy credibility on question. However, what should be noted is that these trade policy reversals are not unexpected because the trade liberalisation program caused serious hardship, which we have detailed herein. Government in such circumstances did not have much choice and could not be expected to avoid the reversals at all costs because they risk being removed from power. As such trade liberalisation in the way it has been implemented in Zimbabwe failed to live up to expectations and showed the weakness of structural adjustment programs.

8, Conclusion

Contrary to the promise of benefits from trade liberalisation our general observation trade liberalisation was followed by misery, increased hardships, deterioration of human development, destruction of poor peoples' livelihoods, environment, high rates of inequality, marginalisation of poor countries and their communities. Social hardships and poverty increased, more firms were closed than opened, unemployment increased and formal employment was informalised, purchasing power declined, income gap between the rich and the poor widened, standards of living fell, drop outs from school became more and more, corruption became a chronic problem. Rapid liberalisation worked against the poor and caused greater inequality by favouring certain income groups [profit appropriators] over others wage earners], and growing wage inequality between skilled and unskilled workers in the context of declining industrial employment of unskilled workers and large absolute falls in their real wages. "Social problems, especially to the vulnerable segments of the society such as the poor, and unemployed usually accompany structural adjustment programmes. With market forces determining price levels, in the short term prices are bound to increase beyond the reach of the poor and this can lead to social unrest." (Goz, 1990, p 18)

The main conclusion of the paper is that trade policy reforms, liberalisation undertaken strategically i.e., within a clear national development program can be very useful tools and means of stimulating growth, reducing poverty and improving human development. On the contrary, trade liberalisation taken for the sake of it and driven by outside forces, generates serious hardships in the form of deterioration of social welfare and human development. Thus, trade liberalisation on its own and undertaken for the sake of it will only lead to increased hardships and deterioration of human development. Instead trade liberalisation should be taken as one of the various components within a clearly national development strategy.

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ANNEX

A. Zimbabwe's Multilateral, Regional and Bilateral Trade Arrangements

Zimbabwe is a member of multilateral trade arrangements [WTO and Lome Convention], regional trade arrangements [SADC, COMESA and CBI] as well as bilateral trade agreements with neighbouring countries i.e. the Trade Agreement Group [TAG] Botswana, Namibia, Malawi, Zambia and South Africa. All the arrangements provide frameworks for further liberalisation of trade and Zimbabwe has made commitment within each of these arrangements towards that objective. Implementation of trade liberalisation within these frameworks has implications for human development situation for the country.

1 World Trade Organisation [WTO]

Since 1947, Zimbabwe has been a member GATT and participated in the Uruguay Round [UR] between 1986 –94 which resulted in the creation of the WTO in 1995. Unlike GATT its predecessor, WTO imposes specific and strict disciplines and regulations on developing countries including Zimbabwe regarding trade liberalisation commitments, yet 5 years after WTO came into being there is no clear understanding of the implications of its disciplines on the Zimbabwean economy. What is more disturbing is that, before Zimbabwe has been able to come to terms with commitments undertaken under UR it is faced with challenges of negotiating new commitments in the New WTO Round.

The main objective of WTO is to ensure liberalisation of trade and to promote expansion of international trade in goods, services and intellectual property in an environment of non-discrimination, transparency, predictability and contractuality [WTO 1994]. It also serves to provide a forum for negotiating trade concessions and removing trade barriers, monitoring the multilateral trade system and developing a rule based trade system.

The birth of WTO in 1995 coincided with the end of Zimbabwe's economic reforms in which it carried autonomous and unilateral trade liberalisation policies such that by the time commitments taken under WTO came into effect, Zimbabwe already had a much more liberal trade policy. Controls on imports and foreign exchange had been removed, tariffs reduced, domestic market de-controlled and the environment for foreign direct investments improved. Given this background, ***Zimbabwe viewed trade liberalisation within WTO as complementary and supportive international instruments to buttress national efforts***. It was expected that Zimbabwe's trade and investment liberalisation would not only succeed but more importantly result in economic growth, employment creation, increased exports and integration of the country into the world economy, Mbegabolawe C, [1999 November]. ***Thus, the approach taken by Zimbabwe in the WTO was to 'lock in' trade liberalisation measures initiated within ESAP into the WTO agreements*** and these measures involved;

- tariff binding and tariff reductions,
- tariffication of non-tariff barriers in agriculture,
- reductions of some domestic support measures and subsidies
- provision of greater market access to other WTO members
- liberalisation of financial services and
- removal of import licenses.

As a developing country, Zimbabwe enjoyed some concessions regarding compliance, longer implementation periods, exemption from some commitments, grace periods and technical support towards meeting its obligations. There was optimism that Zimbabwe's WTO membership and liberalisation would bring benefits; stimulate economic growth, improve social welfare and reduce poverty.

The reality 5 years after is a sad picture. Economic growth has stagnated, exports failed to grow while imports have surged upwards replacing local production particularly in manufacturing where the process of de-industrialisation has set in and is gaining momentum. Due to deficiencies inherent in the WTO system, internal and external factors Zimbabwe has failed to extract benefits from the world trading system. Progressively Zimbabwe is facing increasing prospects for severe marginalisation in international trade.

2 Costs and Benefits From Implementing WTO Provisions

For Zimbabwe and other developing countries, the subject of costs and benefits from implementation of UR was and still is at the core of the current debate within the new WTO round. Implementation is understood in two ways, first, the substantive aspects relating to the utilisation of opportunities and instruments from the UR to derive benefits and second, the technical aspect relating to carrying out of specific requirements particularly compliance and notifications under the various WTO agreement. This latter aspect is considered immaterial by developing countries while developed countries are focusing on it as a way of ensuring that developing countries are ‘locked’ into irreversible trade liberalisation.

The substantive aspect which has caused a lot of controversy in Zimbabwe can be assessed in four broad areas namely market access, trade defence instruments, dispute settlement and effective participation in monitoring and negotiation of agreements.

Market access. Trade liberalisation within WTO has been accompanied by worsening of market access conditions for Zimbabwean’s exports in industrialised markets particularly in the EU. Currently, Zimbabwe benefits from non-reciprocal preferential market access in the EU within the Lome Convention and in other industrialised markets through the generalised system of preferences [GSP] for selected products. However, there are problems with continuation of Lome trade preferences to ACP countries as preferences are incompatible with WTO provisions. So far Lome IV is operating on the basis of a WTO waiver which expires in February 2000 together with the expiry of Lome IV Convention. Maintaining preferences on a long-term basis by securing a waiver each time is difficult so the EU is proposing to replace the convention with regional economic partnership agreements [REPAs] based on reciprocal trade conditions. Further, WTO induced trade liberalisation has led to the narrowing of the differences between GSP rates and MFN rates and between GSP and Lome rates thus undermining Zimbabwe’s tariff based preferences and market access. Due to structural deficiencies, the country has also failed to take advantage of tariff cuts within WTO.

Sectors of particular importance to Zimbabwe such as tropical products and agriculture where the majority of the poor is employed remain un-liberalised. Northern protectionism is costing developing countries up to $700 billion in annual export earnings, UNCTAD [1999] Trade and Development Report. On the other hand, subsidised agricultural imports from developed countries are pushing out small-scale producers from the market. Further, in agriculture benefits of trade are inequitably distributed and livelihoods of small-scale farmers are degraded by cheaper subsidised imports.

Tariff peaks and tariff escalation remain fundamental constrains for developing countries exports including for Zimbabwe [UNCTAD 1998b]. Average reduction in tariffs by developed countries has not necessarily lead to low tariff for developing countries exports into the industrialised states. Export products of interest to Zimbabwe e.g. tobacco, clothing textiles leather continue to face exceptionally high tariff peaks in industrialised markets [except in the EU]. Although industrial tariffs of developing countries remain high compared to those in developed countries it is important that tariff peaks are removed in order to encourage developing countries to further liberalise. Further, tariffs on exports of developing countries to industrialised countries tend to escalate depending on the level of processing of the products. Escalation of tariff reinforces the role of developing countries as sources of raw materials and discourages processing of exports. For example, tariffs on unprocessed tobacco is much lower than on cigarettes while tariffs of cotton exports is lower than on textiles and clothing exports. Thus, while industrial tariffs are low, it is observed that they get higher on products with more processing than on products with less processing. Therefore, developed countries should reduce tariff escalation to encourage manufacturing to take place in developing countries.

Zimbabwe has also suffered from sanitary and phytosanitary [SPS] measures and standards being used as instruments to restrict exports into industrialised markets. For example, procedures to prove that some areas are pest and disease free or low risk [in the case of foot and mouth disease in some areas] are usually long and burdensome and often include the need to provide complex scientific evidence which is problematic. Even after the disease has been eliminated some major importing countries may still refuse to recognise areas designated as disease free. Eradication of specific diseases from an area may require substantial investment that the country does not have. COMESA countries and other developing country do not have. Financial support should be provided readily to assisting developing countries meet SPS standards particularly in case where application of SPS measures is affecting major exports of the developing country.

Trade defence instruments. Zimbabwe faces difficulties in defending its trade interests both in the domestic and international market when trade defence instruments [antidumping, subsidies, countervailing safeguard measures] are brought against its exports. On the other hand, developed countries continue to use antidumping and particularly subsidies that give their exports a competitive urge over those from developing countries. Subsidies in the North undermine the competitiveness of developing countries and distort trade patterns and specialisation. In order to make use of trade defence instruments e.g. against subsidies developing countries require considerable resources to establish the requisite institutional, information and human resources. Legal costs and availability within the country of legal expertise to deal with trade cases where Zimbabwe's interests are prejudiced are the main limitations for Zimbabwe to full recourse to the WTO dispute settlement mechanism.

Monitoring and negotiating WTO agreements. Benefits to Zimbabwe have been affected by its inadequate participation in the permanent process of reviews of URA which take place in various bodies of the WTO. Some of these reviews have effects of changing the nature of balance and/or establishing new rights and obligations for members, Mbegabolawe C [1999]

Thus, it is quite clear that the optimism Zimbabwe shared of benefiting from WTO has not occurred, instead the burden of complying with the WTO provisions is very high.

3 Proposals to enhance benefits from WTO

Trade liberalisation under appropriate conditions can make an important contribution to promoting human development, poverty alleviation, and sustainable development. This will require reforms in the WTO rules to level the playing field in international trade and complementary policies to generate benefits for the world's poor. To enhance the delivery of WTO to the poor there is need for:

- Research and analysis of the linkages between poor communities, their environment and further trade liberalisation within WTO,
- Levelling the playing field by eliminating subsidies in developed nations particularly in agriculture and redesigning subsidies to promote social development objectives in the South,
- Up-front reductions of trade barriers in agriculture by developing countries including binding of tariffs at zero in agriculture,
- Re-balancing by reducing the rights of intellectual property holders [monopolies] in favour of poor communities. Privatisation of knowledge intensive imports and restricted access to intellectual property restricts innovation and trade in high technology goods and services in developing countries.
- Provision of aid to small-scale operators and farmers to build capacity in order for them to take advantage of trade opportunities,
- Reform existing agreements to allow developing countries flexibility to gain better market access, promote food security, public health and support livelihoods of vulnerable communities,
- Special and differential provisions need to be strengthened and extended beyond transitional periods to meet the development needs of poor communities.

In conclusion, while the WTO cannot be expected to solve problems of poverty, its efforts should not be judged solely on the basis of trade liberalisation undertaken in the country as is the common approach, but in terms of contribution towards the achievement of human development targets. In this background, post Seattle trade negotiations pose important opportunities for Zimbabwe to address the fundamental development issues facing its people.

4 Lome Convention and post Lome IV ACP-EU Cupertino

In 1980 after independence, Zimbabwe became a signatory of the Lome Convention that since 1975 provides the basic framework for economic co-operation between the EU and 71 ACP countries. ACP-EU co-operation encompasses five main areas of co-operation namely; preferential trade, technical assistance, financial and regional co-operation, promotion of investment as well as cultural co-operation. Trade co-operation which is based on non-reciprocal tariff preferences given to ACP by the EU is a very valuable component of the EU-ACP co-operation in as much as preferences guarantee better market access and market prices to goods originating from ACP countries. The impact of preferential market access has generally been positive for Zimbabwe.

Since acceding to the Lome Convention in 1980, Zimbabwe has made commendable use of Lome preferences and for the past 3 consecutive years from 1994 it enjoyed a balance of trade surplus in its trade with the EU. Exports to the EU currently account for about 36% of the country's total export and cover both traditional and non-traditional product lines. Major export products to the EU [see table B in annex] are tobacco, iron and steel, cotton, meat products, precious stones, clothing trees plants, cut flowers, sugar and confectionery while main imports from the EU comprise machinery, vehicles, electrical machinery, chemical products, cereals, photographic products and inorganic chemicals. Over the period 1990 and 1997 the fastest growing imports included food and live animals [4.5%], beverages [3.8%] while crude inedible materials and mineral fuel imports experienced negative average annual growth. Among exports, the best performers in terms of average annual growth were miscellaneous and manufactured articles, tobacco and chemicals and related products while transport equipment and machinery stagnated. Table A & B in the annex illustrates the dynamics and structure of trade flows between Zimbabwe and the EU.

Further, under the Convention's Beef and Veal Protocol, Zimbabwe has a preferential tariff quota that allows it to export 9 100 tonnes of beef into the EU annually. Under the Sugar Protocol, Zimbabwe's preferential tariff quota stands at 30 225 tonnes annually supplemented by a variable Special Preferential Sugar quota which in 1997/98 season was 29 744 tonnes. Table 1 below shows the level of utilisation of Zimbabwe's quotas under Lome IV. Regarding sugar, the country has been able to fully utilise its quotas as well as the special preferential sugar quota but the beef quota was not fully utilised for the past four consecutive years. A total of 6 560 tonnes only was exported i.e. 40% from 1995 levels.

This has been attributed to the BSE “mad cow” disease scare, the temporary stoppage in April/May, 1996 of exports to the EU due to the foot and mouth disease outbreak, as well as lower throughput of cattle to CSC abattoirs following the impact of the 1992 drought.

Table 1
Utilisation of Quotas under Lome Commodity protocols

	1994/95	1995/96	1996/97	1997/98
Sugar incl. Special preferential sugar]	90 183 tonnes = Z$343 mn	66 909 tonnes = Z$385 mn	63 062 tonnes = Z$399 mn	67 191 tonnes = Z$480 mn
Beef	13 810 tonnes = Z$588 mn	11 668 tonnes = Z$688 mn	7 000 tonnes = Z$503 mn	6 560 tonnes = Z$402 mn

Zimbabwe has also benefited from the STABEX [for supporting export earnings] and Sysmin [for supporting the development of mining] instruments. These instruments have been particularly effective in ameliorating hardships caused by continuos decline in prices of commodity exports. Small-scale farmers have also been able to benefit from STABEX. For example in 1992 following the drought and fall in world prices of coffee, STABEX funds cushioned the incomes of coffee farmers and assisted them to rehabilitate production to pre-drought years. However, Zimbabwe and most other ACP countries have failed to diversify their exports, to become more competitive and establish domestic trade policies that stimulate trade and enhance economic transformation.

In light of the limited impact of Lome Convention, its expiry and WTO incompatibility its treatment of developing countries, the EU is proposing to replace non-reciprocal preferences with reciprocity in the form of regional economic partnership agreements [REPAs]. The main objective of REPAs is to establish free trade agreements between EU and different ACP regions and where appropriate with individual countries. In southern Africa, the EU has identified SADC as a possible partner for a REPA and where appropriate individual countries.

Opening of Zimbabwe or SADC market to EU products within the proposed free trade area will pose serious problems due to the enormous difference in levels of economic transformation between EU and Zimbabwe. Specific problems of a REPAs include:

- Trade distortive effect of subsidies by the EU within CAP that undermine areas where Zimbabwe has potential to develop competitive advantage,
- REPAs pose serious adjustment problems for infant industries in Zimbabwe. Zimbabwean firms compared to those in the EU are sucklings considering that a number of them emerged with the adoption of market economic reforms in 1991,
- REPAs do no guarantee continuation of commodity protocols that are very important for Zimbabwe,
- REPAs are silent on relaxing Lome rules of origin which have tended to restrict expansion of trade within the Lome Convection,
- REPAs are merely a price Zimbabwe should pay for maintaining current market access but the EU will not offer any further tariff liberalisation because its tariff very low already.
- Trade diversion effects will outweigh trade creation effects for Zimbabwe because the preferential tariffs in favour of the EU will make goods from the ROW more expensive because the EU is not the most efficient producer vis’a’vis the ROW
- The margin of Lome preferences is falling due to the unilateral extension of market preferences to other regions and countries by the EU.

Thus, opening up for EU imports into Zimbabwe will have more negative than positive effects. There will be serious adjustment costs, firm closures, job losses and poverty. Expectation of cheaper imports can be misleading because of supply conditions that will allow monopolies to accrue all the rents from low tariffs than extending such benefits to the consumer through low prices such that revenue lost by government will enrich EU suppliers than benefit consumers.

5 SADC & COMESA

Regional integration within SADC & COMESA is another important platform through which Zimbabwe is undertaking further trade liberalisation measures. Since the 1990s, all COMESA and SADC countries have been liberalising their trade and foreign exchange regimes unilaterally under market economic reforms supported by the IMF and WB. However, the reforms have not led to macro economic convergence, policy harmonisation and stability which is necessary for closer economic and trade integration. There is also significant difference in the relative size of the economies that weaken liberalisation and induce negative responses to regional liberalisation in weaker countries.

SADC is an important source and destination of Zimbabwe imports and exports. In recent years, there has been a market shift from EU towards SADC and exports to the region now account for about a 30% of the country's total exports, while imports from SADC are over 40% of the total import bill. South Africa is Zimbabwe's single major import supplier as well as destination for exports in the world. In 1995, South Africa alone accounted for 85% of Zimbabwe's regional imports and in 1996 it accounted for over 90%. The trade balance between Zimbabwe and SADC is nearly 4 times in favour of the later but without SA, the trade balance between Zimbabwe and SADC is nearly 3 times in favour of the former. Tables E and F in the annex illustrate the level of trade between Zimbabwe and SADC without SA. Zimbabwe imports manufactures and machinery from South Africa and in turn exports similar products to other SADC countries. Botswana is Zimbabwe's second largest regional market followed by Zambia, Malawi and Mozambique. Zimbabwe supplies a variety of products to SADC chief among them being tobacco, cotton, oil cake and Soya beans, maize, live bovine animals, coniferous wood, cotton seeds, light manufactures in exchange for fuels, vehicles, explosives, chemicals machinery, plastics, paper and steel. Over the past 7 years, imports from SADC [without SA] have generally grown faster than Zimbabwe's exports to those countries. Fast growing imports were machinery and transport equipment, food and live animals and mineral fuels while fast growing exports were foods, live animals, chemical and related products.

Contrary to Zimbabwe's situation in SADC, trade with COMESA countries is characterised by a huge surplus trade balance that has existed since COMESA was founded. Zimbabwe's major imports from COMESA include food and live animals, crude materials, manufactures, beverages and tobacco while its exports are dominated by food products, manufactures, chemicals, transport equipment and machinery. The fastest growing exports to COMESA over the past 7 years have been beverages and tobacco, chemicals and miscellaneous articles while imports of food products, crude materials, machinery and transport equipment have expanded significantly. Generally, imports from COMESA into Zimbabwe have been increasing at twice the rate of increase in exports to COMESA narrowing the trade balance. In terms of liberalising trade COMESA has come a long way since 1982 with several measures having been undertaken to reduce tariffs to zero by October 2000. However, trade liberalisation within COMESA is not expected to have serious implications on Zimbabwe due to low levels of trade Zimbabwe has in that region. Table C and D in the annex illustrate the dynamics of Zimbabwe's trade flows in COMESA region.

To try and stimulate trade integration, SADC members in 1996 signed a Trade Protocol aimed at establishing a free trade area within 8 years from its ratification. Specific objectives of the protocol are to;

- Liberalise intra-SADC trade in goods and services in an equitable manner and establish a free trade area,
- Enhance industrialisation and economic development within the region,
- Foster greater production efficiency and to improve the investment climate within the region.

Modalities of tariff reductions are currently being worked out by the Trade Negotiating Forum [TNF] which was expected to finalise its work by end of 1999 in time to allow for the ratification of the trade protocol by 2/3 of SADC member states with implementation of the protocol expected from January 2000. Thus, so far the SADC trade protocol is not yet in effect and therefore difficult to access the implications of trade liberalisation within SADC on Zimbabwe.

By November 1999, the TNF had reached agreement on the following.

- A linear tariff reduction approach i.e. each country would reduce its tariff on intra-SADC trade by a given percentage over 8 years according to agreed criteria.
- South Africa will reduce its tariff faster than other SADC countries.
- Developing SADC members will offer preferential market access to SADC/LDCs
- Products will be classified into 3 broad categories; non sensitive [to be front loaded for liberalisation], sensitive and very sensitive [to be back-loaded for liberalisation.
- Submission of sensitive lists at 6 digit HS level as well as steps regarding tariffs reduction on such products.
- Submission of lists of NTBs and their elimination program.
- Standardisation of documentation for facilitating trade.

Problems inhibiting trade integration within COMESA and SADC have been identified as deficient supply and production base, poor and run down infrastructure, inadequate market information, insufficient managerial, administrative and commercial skills, inappropriate trade policies particularly multiplicity of trade barriers, absence of business involvement and civil society, lack of political will, civil wars and militarism, poor macroeconomic management and lack of policy convergence.

In conclusion, closer regional economic co-operation through trade is viewed as a launching pad towards regional development and international competitiveness. This in turn creates conditions for addressing critical problems facing the region such as human development and poverty elimination. To this extend regional integration and trade liberalisation should de designed in a manner that benefits the majority, informal sector, rural population and women.

6 Bilateral trade agreements

6.1 Agreement with South Africa

South Africa is an important and major trading partner for Zimbabwe with trade between them growing at a much faster rate in the 1990s following removal of international sanctions imposed on apartheid South Africa. The basis of this performance also lies in several fundamental factors such as existence of traditional trade ties, geographical proximity, complementarity of production and consumption, similarity in tastes, identical industrial and trade policies particularly under apartheid and Rhodesia and the impact of international sanctions, and more important the existence of a bilateral trade agreement. The Trade Agreement between South Africa and Zimbabwe that entered into on 30 November 1964 accords preferential treatment to goods and services in the form of rebates on duty and market entry free of duty. Some products including textile and clothing are subject to quotas and rules of origin when entering the two markets. The agreement provides that rules of origin of the textile and clothing arrangements shall be based on Lome IV Convention principles. For example, when materials wholly obtained in the South African Customs Union [SACU] undergo working or processing in Zimbabwe for export to South Africa are considered as having been wholly obtained in Zimbabwe. If working and processing is carried out in SACU and then transferred to Zimbabwe for further processing the processing is considered wholly done in Zimbabwe. The quota and origin requirements are monitored through a permit system.

Table 2 below is illustrative of the imbalance in trade between Zimbabwe and South Africa. In the past 8 years alone, Zimbabwe's trade deficit with South Africa nearly trebled from US$279.3 million to US $848 million in 1998. Imports from South Africa increased particularly in 1994/95 compared to the past

3 years. It is also interesting to note that as imports experience rapid growth exports grow very slowly and vice versa.

Table 2 Trade between SA and Zimbabwe [US$ Million]

YEAR	EXPORTS TO SA	% CHANGE	IMPORTS FROM SA	% CHANGE	TRADE BALANCE
1990	71.5	-	200.5	-	-129
1991	87.8	22.8	367.1	83.1	-279.3
1992	158.7	80.8	497.6	35.5	-338.9
1993	177.1	11.6	461.8	-7.2	-284.7
1994	211.9	19.6	708.8	53.5	-496.9
1995	231.2	9.1	1010.3	42.5	-779.1
1996	200.5	-13.4	1066.1	5.5	-865.6
1997	251	25.2	1078	1.1	-827
1998	353.5	40.8	1101.1	2.1	-848

Source; CSO Quarterly Bulletin of Statistics 1999 various issues

Until recently there has been some erosion of market access of Zimbabwean goods into South Africa after the later unilaterally withdrew some of Zimbabwe's preferences. Protracted trade negotiations between them were held with the aim to re-instate eroded preferences under the 1964 Agreement especially also in view of the growing trade gap in South Africa's favour. In addition to the 1997 reinstatement of some of the preferences by South Africa, the two parties agreed on 15 July 1999 to expand the quotas of a number of items exported by Zimbabwe to South Africa as shown in Table 3 below. New quota allocations were effective from 1 August 1999 up to 31 July 2000 when preferential trade arrangements would be provided in accordance with the SADC Trade Protocol framework. It is expected that the new quotas will stimulate the expansion of Zimbabwe's exports to South Africa necessary to reduce Zimbabwe's trade deficit.

Table 3

Zimbabwe - South Africa Agreement – New Quota Allocations for Zimbabwe

Product Description	**Old Quota**	**New Quota**	**Preferential Rate Of Duty (%)**
Yarn	800 000 Kg	2 000 000 Kg	12
Blankets	40 000 Units	150 000 Units	21.5
Household Linen	145 000 Kg	245 000 Kg	21.5
Terry Towelling	-	-	-
Protective Clothing	R100 000	95 000 Units	0-5.0
Industrial Gloves	R60 000	100 000 Pairs	0-10.0
Twine, Cordage	R100 000	300 000 Kg	2
Cables And Ropes	-	-	-
Industrial Boots	R10 000	15 000 Pairs	10
T-shirts And Vests	400 000 Units	1 000 000 Units	30
Leather	R70 000	6 000 000 Sq.M	0 Travel
Goods	R700 000	2 000 000 Kg	50
Trousers And Shorts	320 000 Units	1 000 000 Units	30
All Other Classes	2 407 000 Units	1 127 000 Units	30

6.2 Impact of SA-EU Free Trade Agreement on Zimbabwe

South Africa and the European Union, Zimbabwe's major trading partners signed early this year an Agreement on Trade and Co-operation whose primary objective is to establish a free trade area in conformity with WTO provisions over a transitional period of 10 years maximum for the EU and 12 years maximum for SA. The free trade area covers free movement of goods in all sectors and also liberalisation of trade in services. This agreement will certainly have profound implications particularly for Zimbabwean industry as well as on the outcome of several trade negotiations in which Zimbabwe is a part: the bilateral trade talks between Zimbabwe and South Africa, SADC Trade Protocol negotiations, the renegotiations of the Lome IV Convention and the WTO Millennium round. The EU-SA Free Trade Agreement is differentiated in coverage and asymmetrical in timing. It also contains several features that assure positive regional impact on other countries of SACU and SADC. The coverage of the Free Trade Area will be around 90% of current trade between the Parties divided as follows: Community: full liberalisation of 95% of imports from SA by end of transitional period of 10 years. South Africa: full liberalisation of 86% of imports from EU by end of transitional period of 12 years.

The SA-EU agreement will have both negative and positive effects on Zimbabwe. The extent of these effects will depend on; the relative importance of preferences enjoyed by Zimbabwe's exports in the SA market relative to EU exporters and in the EU market relative to SA exporters. In the immediate future, the impacts will depend on the relative phasing of South Africa's tariff reductions under the SADC Trade Protocol and the SA-EU free trade area [FTA] and Zimbabwe's future trading relations with the EU relative to the phasing of the EU's tariff reductions under its agreement with SA. The long-term impact will depend on whether there will still be preferences for one party over another at the end of the liberalisation processes under the SA-EU FTA, the SADC Trade Protocol and whatever post-Lomé IV agreement Zimbabwe negotiates with the EU.

Negative effects include: displacement of some Zimbabwean exports on the SA market by those from EU particularly given the CAP, "sneaking in" of subsidised EU goods into Zimbabwe via SA and avoiding duty. Zimbabwe's exports to South Africa which would be subject to increased competition from EU exports once tariff barriers are equated are (in decreasing order of importance) wood manufactures, furniture, metal goods, textiles, machinery, paper articles, organic chemicals, non-metallic minerals, transport equipment and footwear, Further there would be losses of revenue to the state, high burden on customs to administer rules of origin, investment diversion from the region into SA and general erosion of preferential market access for Zimbabwean goods in both SA and the EU. The absence of safeguard measures in the agreement to cover non-SACU/SADC states and the undue burden placed on the already weak Zimbabwe's customs system is a major concern. The positive effects include; the opportunity provided by the cumulation provisions, increased competition and other trickle down dynamic effects. A number of products of export interest to Zimbabwe are excluded from the general tariff liberalisation within the EU-SA agreement which at least preserves Zimbabwe's preferential access in SA for these products vis'a'vis the EU and other countries outside SACU/SADC.

6.3 Agreements with Botswana and Namibia

Agreements with Botswana and Namibia are based on the same framework. Goods and services are allowed between Zimbabwe and Botswana and between Zimbabwe and Namibia tariff and surcharge-free into each other's markets. In each of the two agreements access of the goods and services is subject to a 25% minimum local content. Certain classes of textile and clothing products from Botswana are not allowed into Zimbabwe to reduce competition under the Botswana-Zimbabwe agreement