ZIMBABWE

TRADE SUMMARY

In 2000, the U.S. trade deficit with Zimbabwe declined to $59 million, a decrease of $14 million from the 1999 deficit. U.S. merchandise exports to Zimbabwe in 2000 totaled $53 million, a decrease of $7 million from 1999. Zimbabwe was the United States' 134th largest export market in 2000. U.S. merchandise imports from Zimbabwe were $112 million, down $20 million from 1999.

The stock of U.S. foreign direct investment in Zimbabwe was $128 million in 1999, an increase of 29.3 percent from 1998.

IMPORT POLICIES

Zimbabwe's economy, including its tariff regime, began a transition in 1991 from a highly controlled, Marxist-modeled, statist system to a more open, market-based economic system. During the first phase of its structural adjustment program, which ended in 1995, Zimbabwe abolished quantitative restrictions in favor of a tariff-based trading system. In early 1996, Zimbabwe undertook a comprehensive review and rationalization of its tariff policies and rates with substantial World Bank input and the cooperation of the Confederation of Zimbabwe Industries (CZI). A new tariff regime, effective March 1, 1997, lowered duties on raw materials and other inputs in an effort to remove most cases of the previous anomaly where there were higher duties on raw materials than on finished products. Raw materials now incur a duty rate of five to 15 percent, though additional import surcharges are very likely to be applied.

Probably the most significant current barrier to new or ongoing trade or imports to Zimbabwe is the very poor balance of payments situation, and the resultant severe hard currency shortage. The causes are myriad: declining GDP (in real terms); high inflation and high interest rates (an average 60 percent the last two years); an overvalued pegged currency; an unsustainably high government budget deficit (estimated to be about 25 percent of GDP for 2000); overall poor export and domestic investment performance that is expected to worsen; threats to the country's core commercial farming sector; growing corruption; and chronic, severe fuel shortages (caused by the lack of foreign currency). Economic conditions are expected to deteriorate further before they improve, and a turnaround would likely be proceeded by a resumption of positive working relations with the international donor and multilateral lending community.

Tariffs and Duties

In response to the significant deterioration of Zimbabwe's economy and as a precursor to the imposition of a value-added-tax (VAT) regime scheduled to be in place by the first quarter of 2002, the Government of Zimbabwe is currently working on finalizing a new tariff and import duty schedule.

Due to the slide of the Zimbabwe dollar against foreign currencies which began in August 1998, the government increased import tariffs across the board in September 1998 from 20 to 100 percent. Generally the higher duties are applied to luxury items and goods for which domestically produced substitutes exist. The list of targeted goods includes furniture, bicycles, motor vehicles, electrical and electronic goods, shoes, carpets and building materials. At the urging of the World Bank and the International Monetary Fund, the Tariff Commission announced a rollback schedule for these higher duties which was to begin in January 2000. However, in the second week of January 2000, the Ministry of Finance announced the suspension of reductions, citing revenue loss considerations.

At present, tariffs and duties as presented in the customs and excise amendment notice number 12 of 1998 are still in effect, though changes have been promised. Representative examples include:

- Duty on edible vegetables increased from 40 to 60 percent to 60 to 80 percent;
- Duty on cereal flours increased from 30 to 60 percent;
- Duty on prepared cereals increased from 40 to 80 percent;
- Duties on fruit juices and aerated water 85 and 82.5 percent respectively, with a Z$10/liter (about 18 U.S. cents at current exchange rates) and 22.5 percent excise duty respectively;
- Duty on imported wines 95 percent duty and Z$2.50/liter (about 4 U.S. cents at current exchange rates) excise tax;
- Duty on cigarettes 100 percent duty and 80 percent excise tax;
- Duty on perfume 80 percent, up from 40 percent;
- Duty on footwear increased from 30 to 65 percent;
- Ceramic products are charged 80 percent duty, up from 40 percent;
- Air conditioning units previously at zero now incur 40 to 90 percent duty and a surcharge of Z$200/unit;
- Duty on passenger motor vehicles (buses) seating 20 or more persons increased from 25 to 50 percent, while on vehicles seating 19 or less (minibuses) the duty rose from 40 to 80 percent;
- Duty on toys increased from 30 to 70 percent;
- Duty on plastic or wooden furniture increased to 80 percent from 40 percent.

Duties on what are considered luxury goods that can be manufactured locally have increased on average by 100 percent. A tariff commission has been formed to look at cases where local manufacturers have been disadvantaged by the new tariff regime, though it meets only monthly and has a large and growing backlog.

Effective on October 2, 1998, all tariffs on imported goods have also been charged a 15 percent import surcharge, regardless of classification. A narrow exemption from the tax exists for capital goods, such as manufacturing equipment and intermediate goods that are subject to further processing and re-export.

Periodic instances of corruption and a lack of uniform application of the law by customs officials continue to concern importers and users of imported goods or components.

Relevant tax and duty changes included in the 2001 budget announcement include:

- reduction of sales tax on commercial vehicles from 25 to 15 percent;
- the corporate tax rate is reduced from 35 to 30 percent plus HIV/AIDS levy of three percent, and from 35 to 25 percent for mining companies;
- effective January 1, 2001, capital goods imported by the mining sector for a five-year exploration phase are exempt from import and sales taxes;
- a 20 percent aircraft leasing excise tax was scrapped, and import duties on aircraft spare parts drop to zero (to benefit tourism);
- duty on imported bicycles dropped from 40 to 20 percent;
- excise duty on soft drinks reduced from 25 to 15 percent, and excise duty on imported beer reduced from 80 to 60 percent;
- to promote exports, companies gain transferable duty-free certificates based on 10 percent of the U.S. value of incremental exports in 2000 and 2001, using 1999 as the base year.

GOVERNMENT PROCUREMENT

Zimbabwean law provides for non-discriminatory government procurement practices, including full transparency in the tender process. The Government of Zimbabwe's tender board is required to invite bids from both local and international entities for any purchase in excess of Z$800,000 (approximately $14,500). Notwithstanding this positive legal

environment, U.S. firms and various national governments, including those of the United States, Japan, Great Britain, France, Belgium and Italy, have voiced strong complaints about the lack of transparency and fairness in government tenders. Multilateral institutions have also criticized the government tendering process and called for changes. Zimbabwe is not a signatory to the WTO Agreement on Government Procurement.

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

In an effort to encourage indigenous businesses, Zimbabwe maintains quotas on certain services and which are reserved for Zimbabwean firms.

INTELLECTUAL PROPERTY RIGHTS PROTECTION

Since independence, Zimbabwe has joined several international patent and trademark conventions. It is a member of the World Intellectual Property Organization, and is a signatory to the Paris Convention for the Protection of Industrial Property (Stockholm text), and the Berne Convention for the Protection of Literary and Artistic Works (Rome text). However, some enforcement problems exist. Audio and videocassette piracy is the most widespread intellectual property issue in Zimbabwe, though the volumes involved are relatively small. While software bootlegging undoubtedly occurs by users, pirated software is rarely sold commercially.

SERVICES BARRIERS

Although the ban on local foreign currency-denominated bank accounts (known as FCAs) was lifted in October 1999 at the IMF's urging, Zimbabwe's severe hard currency shortage has caused a very substantial buildup in public and private external arrears, estimated at nearly US$1 billion at year-end 2000. The lack of hard currency has negatively impacted all sectors of the economy, with particular emphasis on the manufacturing and mining sectors, that require substantial amounts of imported components or supplies. The prospect of continued foreign currency shortages and a pegged exchange rate raises the possibility that additional controls or restrictions may be placed on such accounts, making operations tougher for industry and all importers and exporters.

World-class professional services (consultancy, accounting, legal and others) are generally available within the country. However, the recent economic deterioration and consequent slides in disposable income and standards of living, and political violence and invasions of private property have caused a marked increase in the rates of emigration of professionals and the technically qualified. This has caused recruitment problems for employers.

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

INVESTMENT BARRIERS

The government has lifted some of its most onerous restrictions on foreign investment. It

permits pre-independence investors to remit 100 percent of declared dividends and no longer imposes restrictions on local borrowing. In September 1995, the Reserve Bank of Zimbabwe (RBZ) began liberalizing blocked accounts, allowing repatriation of certain blocked funds (profits and dividends accrued on pre-1993 investments, corporate funds in government of Zimbabwe external bonds, and accounts with authorized dealers). Due to Zimbabwe's ongoing financial crisis, there is serious concern that the government may resort to a re-imposition of foreign exchange restrictions or a formal, fixed rate foreign exchange regime.

Zimbabwe is a signatory to the following investor/investment protection treaties: the Multilateral Investment Grantee Agency (MIGA), the International Convention for the Settlement of Investment Disputes; New York Convention on the Enforcement of Foreign Arbitral Awards; and the United Nations Convention on International Trade Law.

Roadblocks to foreign investment are pervasive Foreign-owned businesses have cited instances of corruption as a serious and troublesome problem, particularly during startup, expansion or transfer of assets. Both new and existing investors have encountered delays and a lack of transparency in obtaining investment transfer approval from the Reserve Bank of Zimbabwe. There have also been protracted delays and a lack of transparency on the part of government in approving work permits for expatriate representatives of overseas firms. Applicants have described the process as difficult, time-consuming, and at times, arbitrary. In one example, a senior executive of a major U.S. corporation was denied renewal of his work permit on the basis of his age (63). The U.S. has had some success in obtaining favorable reviews in such cases.

Investment Promotion

New foreign investment into Zimbabwe, excluding export processing zone projects, have to be approved by the Zimbabwe Investment Center (ZIC). In addition, branch operations require approval from the Ministry of Justice’s registrar of companies, and foreign investment in existing companies may require reserve bank approval.

Harsh economic conditions and uncertainty have caused a 63 percent slide in approved investment applications in 1999 over the prior year, from Z$60.3 billion to Z$22.5 billion (about US$590 million at current rates). Actual investment in any given year may be considerably less than what may be indicated by approved investment applications.

Export Processing Zones (EPZ) and certain related tax concessions could boost foreign investment, but a number of factors have limited their success. Benefits include a five-year tax holiday, duty-free importation of raw materials, no tax liability from capital gains arising from the sale of property forming part of the investment in designated processing zones, and duty-free importation of capital equipment for use in the EPZ. A trade performance mandate requires eligible companies to export at least 80 percent of output. The EPZ authority, operational since early 1996, has approved applications for 105 companies to operate in more than a dozen zones. Just over half of these projects are operational, with the others slowed or halted by the economic downturn that is being driven by high inflation and high interest rates. The new entities are also encountering difficulties in connecting to telecommunications services, water and electric utilities. Problems continue to arise with the Department of Customs, which frequently charges designated companies duties on exempted inputs and equipment.

For companies listed on the Zimbabwe Stock Exchange (ZSE), up to 40 percent of outstanding shares may be foreign-held, with a 10 percent cap for any single foreign holder. Several commercial and merchant

banks and brokerage firms offer comprehensive advisory services on the domestic and regional markets. Work and permanent residence permits are available to investors who bring in specified amounts of foreign capital. Withholding taxes apply to all wages, salaries, interest, dividends and capital gains accruing in Zimbabwe.

OTHER BARRIERS

Land reform

Zimbabwe is currently engaged in an aggressive, chaotic land occupation and resettlement program that has economic consequences that have not been fully realized. While the redistribution of large commercial farms to the landless and small-scale indigenous farmers has long been a stated goal of the Zimbabwean government, no sustained implementation had occurred until the government's loss of a constitutional referendum vote and the subsequent campaign for the parliamentary elections in the first half of 2000. Because the government has proceeded with its "fast track" land resettlement program without benefit of a transparent, coherent plan, and in defiance of orders by the supreme court instructing compliance with the law, international and donor assistance for land reform is now suspended for the most part. (Payment arrears by Zimbabwe have also caused suspension of some donor programs.) A cooperative path forward at the time of this report is difficult to discern, as is the outcome and long-term impacts of the current, politically-driven program.

Privatization

The donor community and the multilateral financial institutions agree that Zimbabwe's record on privatization has been poor. Sustained pressure by these outside groups has brought few results because the government did not have a well-defined privatization program to govern the process. The IMF has made progress on privatization a condition for the renewal of its relationship, but continued delays are expected.

As part of the ongoing commercialization/privatization program, all parastatals must now pay taxes and declare dividends. The 2001 government budget contains a provision for the raising of Z$22 billion from government asset sales (US$400 million), but given economic conditions and the financial state of most of the parastatals it is difficult to see how this will be achieved.

A central problem in the privatization effort has been the absence of a single organizational entity with overall responsibility for the design and implementation of the program, and the need to balance this with participation of local investors lacking capital. Recently, the government has approved and is setting up an independent unit, based in the president's office, that will be charged with identifying public enterprises to be privatized and expediting the sales process. Zimbabwe has privatized several of its agricultural marketing boards. The Cotton Company of Zimbabwe (COTTCO), formerly the Cotton Marketing Board) and Dairiboard of Zimbabwe (formerly the Dairy Marketing Board) were privatized in 1997 through share floats on the Harare stock exchange. The Zimbabwe government retained a 25 percent interest in COTTCO and a 40 percent interest in Dairiboard. In the last quarter of 1999, the Rainbow Tourism Group, a parastatal involved in tourism was privatized with the government retaining a 30 percent equity share. The group owns several hotels, the Harare international conference center, and a transportation company.

A stated goal of privatization in Zimbabwe has been to increase black ownership of the nation's commercial assets. The National Investment Trust (NIT) was set up to facilitate the participation of the economically disadvantaged indigenous population in the privatization process, though funds budgeted for this purpose have never been adequate. As an ad hoc solution,

the government forced postal workers and the national social security fund to buy and hold shares on its behalf. On several occasions, critics have asserted that the implementation of the government's privatization/indigenization policy has been slow, uneven, and tends to favor government friends and ruling party allies at the expense of independent black entrepreneurs. U.S. firms also have complained about official attempts to dictate their choice of local partners (as required in many reserved sectors) under the guise of the government's indigenization policy.