Regional Integration in Southern Africa - Vol. 10

Deepening Integration in SADC

Zimbabwe - Missing SADC Macroeconomic Targets

Benson Zwizwai, IDS

IDS

FRIEDRICH EBERT STIFTUNG

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Preface

Regional integration can be a key force for sustainable development. It can promote economic growth, reduce poverty, foster social development or protect the environment. But, it can also have negative economic and social impacts, notably when the domestic regulatory framework is inadequate or not implemented effectively.

The Southern African Development Community (SADC) is committed to deepening the integration processes amongst its members and has adopted the Regional Indicative Strategic Development Plan (RISDP) in order to provide strategic direction in the design and formulation of SADC programmes, projects and activities in order to achieve development and economic growth, alleviate poverty, enhance the standard and quality of life of the people of Southern Africa; and support the socially disadvantaged, through regional integration.

Amongst the various measures governments can implement to further such integration, ensuring sound macroeconomic management is vital. Given the commitment to deepening SADC integration through macroeconomic policies, it is important that policy makers in SADC and its Member States assess the impacts that such measures will have on the social well-being of its people, both in the short term and the long term.

In view of the above, the Friedrich Ebert Foundation, through its office in Botswana, and in close consultation with the Planning Unit of the SADC Secretariat initiated a regional research programme on "Deepening Integration in SADC – Macroeconomic Policies and their Impact".

From the very beginning the programme was designed as a collective effort of the leading economic research institutions of the region. A total of 14 institutes from 11 SADC member countries responded to the call to join the programme. In two workshops held in December 2004 in Gaborone, Botswana, and in April 2005 in Stellenbosch, South Africa, the team developed detailed terms of reference for the research programme. Phase 1 was to begin at the country level with a comprehensive study of the present status of the economies, their congruence with SADC convergence targets, the respective policy frameworks, as well as a social impact analysis. This more theoretical desk study was complemented by an empirical survey of the perceptions of Businesses and Non-State Actors vis á vis SADC. A study on South Africa's international trade diplomacy and its implications for regional integration was to give a contextual perspective.

All members of the research team have spent a lot of time and energy and produced excellent reports. The ideas and recommendations contained therein have induced some lively as well as controversial discussions among the participating institutions, as well as with other experts. The content of each study reflects of course solely the views of the authors. I commend all of them for their great commitment as well as their great team spirit in this endeavour. I also wish to acknowledge the substantial input we received from the SADC Secretariat, especially the Head of the Strategic Planning Unit, Dr. Angelo E. Mondlane, the then Technical Advisor on Finance, Dr. Moeketsi Senaoana, as well as other SADC experts. Other external experts have also contributed to the final documents as part of the various reference group meetings in all the participating countries. I wish to extend my greatest thanks to all them.

In order to make the results of this research programme known to a broader public, especially among the relevant policy and decision makers of the SADC region, the Friedrich Ebert Foundation then decided to publish a series of volumes entitled "Regional Integration in Southern Africa".

The 10th volume, presented here, contains the findings of the Country Study and Survey from Zimbabwe by the *Institute of Development Studies, IDS* in Zimbabwe. My special thanks go to Benson Zwizwai for writing and revising the document, to Mompoloki Bagwasi for editing, to Sara Wagner for proof reading as well as to Peter Maina Kamiti and MacDonald Gotora for the design and layout.

Gaborone, February 2007

Dr. Marc Meinardus
Resident Representative
Friedrich Ebert Foundation
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Abbreviations

BOP	Balance of Payments
CDTEIC	Customs Duty Tradable Export Incentive Certificate
ECGCZ	Export Credit Guarantee Company of Zimbabwe
EIS	Export Incentive Schemes
EPZ	Export Processing Zone
ESAP	Economic Adjustment Programme
FCA	Foreign Currency Account
FES	Friedrich Ebert Foundation
FFYNDP	First Five Year National Development Plan
FOB	Free On Board
FPL	Food Poverty Line
FTA	Free Trade Area
HPI	Human Poverty Index
ICEU	Implementation and Control of Expenditure Unit
MDGs	Millennium Development Goals
MERP	Millennium Economic Recovery Programme
NERP	National Economic Revival Programme
NTB's	Non Tariff Barriers
PASS	Poverty Assessment Study Survey
PCV	Primary Course of Vaccination
PFMS	Public Finance Management System
RISDP	Regional Indicative Strategic Development Plan
SADC	Southern African Development Community
SFYNDP	Second Five Year National Development Plan
SPS	Sanitary Phytosanitary
TBT's	Technical Barriers to Trade
TCPL	Total Consumption Line
TCPL	Total Consumption Poverty Line
TCPL	Total Consumption Poverty Line
USD	United States Dollar
VAT	Value Added Tax
ZDHS	Zimbabwe Demographic Health Survey
ZEPI	Zimbabwe Expanded Programme on Immunisation
ZIMPREST	Zimbabwe Programme for Economic and Social Transformation
ZIMRA	Zimbabwe Revenue Authority
ZTNDP	Zimbabwe Transitional National Development Plan

1 Introduction

Regional integration has been championed as a means of overcoming limits of industrialisation imposed by small domestic markets. It has further been argued that foreign direct investment can be more easily attracted to regional blocks that have coordinated policies. Such policy coordination tends to reduce perceived macroeconomic uncertainty in the region and can provide the desired "lock in" effect for policy credibility.

Regional trading blocks are important pillars that can be used for building an economically strong Africa that can become a viable trading partner in the global economy. The Southern African Development Coordination Conference (SADCC) was formally launched in April 1980 at a summit in Lusaka and at that time it consisted of nine independent southern African countries. When SADCC was formed, the central objective was to mobilise and coordinate development assistance, facilitate regional co-operation by way of joint development projects, particularly in infrastructure, and to reduce dependence on the then apartheid South Africa. But towards the end of the 1980 decade, there emerged a desire to move beyond co-operation and strive towards regional integration. After some four years of preparation, in 1992, the Heads of State in the region signed a Declaration and Treaty establishing the Southern Africa Development Community (SADC).

SADC aimed at achieving a deeper form of regional integration based on trade integration and sectoral cooperation and coordination to address infrastructure and capacity constraints. The new Community had the following objectives as outlined in the Treaty of 1992:

- Promote development, poverty reduction and economic growth through regional integration;
- Consolidate, defend and maintain democracy, peace, security and stability;
- Promote common political values and institutions which are democratic, legitimate and effective;
- Strengthen links among the people of the region; and
- Mobilise regional and international private and public resources for the development of the region.

SADC aimed at achieving common approaches and policies through protocols that were developed by SADC agencies and sectoral actors, approved by the Council of Ministers and signed by Heads of State or Government. In pursuit of achieving common approaches and policies, SADC developed and adopted a Regional Indicative Strategic Development Plan (RISDP). RISDP outlined the necessary conditions that must be met towards the attainment of SADC's integration and development goals and in this respect, set targets that indicated major milestones towards the achievement of those goals. RISDP identified several priority areas of intervention that can be broadly categorised as sectoral and cross sectoral.

Cross sectoral intervention areas are: poverty eradication, combating the HIV and AIDS pandemic, gender equality and development, science and technology, information and communication technology, environmental sustainability, private sector and statistics. The priority intervention area for sectoral cooperation and integration are: trade/economic liberalisation and development, infrastructure support for regional integration and poverty eradication, sustainable food security and human and social development.

Trade and economic liberalisation for deeper integration and poverty eradication is considered to be one of the key catalytic intervention areas. Interventions in this area involve implementing programmes on achieving a free trade area, a customs union and eventually the establishment of a common market.

The ultimate objective of RISDP is to deepen the integration agenda of SADC so as to accelerate the eradication of poverty and the attainment of other economic and non-economic development goals.

The SADC goals and targets with regards to regional integration are quite ambitious and are as follows: developing a free trade area (FTA) by 2008, establishing a customs union by 2010, creating a common market by 2015 and forming a monetary union by 2016.

SADC is convinced that attainment of the above goals and targets require regional economic integration, macroeconomic stability and compatibility among national and regional strategies and programmes – and these are necessary conditions for sustainable economic growth and for the creation of a monetary union in the region. According to the RISDP, "this process is linked to achieving macroeconomic convergence, stable and harmonised exchange rate systems, liberalisation of the capital and current accounts transactions and adoption of market oriented approach to the conduct of monetary policy" (RISDP – page 56).

In this regard, Governments of SADC signed a memorandum of understanding (MOU) on macroeconomic convergence. The principles of macroeconomic convergence are:

- Restricting inflation to low and stable levels;
- Maintaining a prudent fiscal stance based on the avoidance of large deficits, monetisation of deficits and low ratios of public debt to gross domestic product (GDP);
- Avoiding large financial imbalances in the economy; and
- Minimising market distortions. (MOU on macroeconomic convergence).

The indicators of macroeconomic convergence agreed upon are: the rate of inflation in each member country, the ratio of the budget deficit to Gross Domestic Product (GDP), the ratio of public and publicly-guaranteed debt to GDP; and the balance and structure of the current account.

Table 1 below presents the macroeconomic convergence targets set out in the RISDP.

Table 1: Macroeconomic Convergence Indicators

Indicator	2008	2012	2018
Core Inflation	9%	5%	3%
Budget deficit as % of GDP	5%	3%	1%
External debt as % of GDP	60%	60%	60%
Current account deficit as % GDP	9%	9%	3%
Growth rate	7%	7%	7%
External reserves (import cover in months)	3%	6%	6%
Central Bank credit to government as % of previous year tax revenue	10%	5%	5%
Domestic savings as % GDP	25%	30%	35%

Source: Terms of Reference - 2005

The MOU covered other macroeconomic targets, including raising the level of *domestic* investment to at least 30% of GDP, interconnecting payments and clearing system within SADC, achieving currency convertibility and, finalising of the legal and regulatory framework for dual and cross listing on the regional stock exchanges; all by 2008; liberalising exchange controls on current account transactions and on the capital account; by 2006 and 2010 respectively.

2 Objectives of the Study

The above background provides the impetus of this study. The regional office of the Friedrich Ebert Foundation (FES) based in Botswana, extended financial support to undertake country studies (and surveys) on macroeconomic policies and their impact, given the commitment of SADC countries to the macroeconomic convergence targets. FES recognises that it is important for policy makers in SADC and its Member States to assess the impacts that the agreed measures will have on the economic and social wellbeing of the populace both in the short and long term.

The concepts and terms of reference of this study were developed at a workshop organised by FES in close collaboration with the SADC Secretariat, for macroeconomic researchers and policy analysts that was held on 6th-7th December 2004 in Gaborone, Botswana. The purpose of the study is to provide the SADC Secretariat and SADC national policy makers with advice on how the process of integration can be undertaken taking into consideration the implications of various options on the economies of the countries involved. The study is aimed at providing the SADC Secretariat and policy makers with information on policy constraints as well identify opportunities that may be taken advantage of so as to enhance the capacities of national policy makers to harmonise national interest with the regional integration process. The RISDP as summarised above serves as the basic reference document for the study.

Given the above, the objective of this study is to provide a broad stock-taking the status of the policy frameworks in Zimbabwe, especially with respect to the targets set out in the MOU on Convergence. The study also identifies the main linkages between these policy frameworks and their social impacts in the country. The three major policy frameworks that the study addresses are the basic **macroeconomic** policy framework (especially fiscal and monetary policy), the **trade** policy framework and the **labour market** policy framework. As already pointed out, the study will investigate the links between these policies and their **social impacts**.

This study takes into consideration the fact that the ability of Zimbabwe to achieve the macroeconomic convergence target will be determined or affected by factors such as:

(a) The macroeconomic conditions prevailing in the country;
(b) The institutional arrangements prevailing within the country;
(c) The political priorities of the Government of Zimbabwe; and
(d) Zimbabwe's existing multilateral commitments.

This study is basically a desk study, relying on existing data and information that is analysed in accordance with the objectives as stated above. The study relied on official documents such as government and central bank policy documents for data and the analysis was basically qualitative.

The remainder of the report is structured as follows: section 3 below examines the macroeconomic policy framework of Zimbabwe as reflected in the current development plans. The section reviews past developments so as to bring out the factors that led to the current approaches. This is followed by sections 4 and 5 that deal with trade policy and the labour market policy respectively. Section 6 addresses social impacts of the various policies aimed at achieving macroeconomic stability and convergence. Finally section 7 gives the conclusions of the study.

3 Macroeconomic Policy Framework

3.1 Macroeconomic Policies 1980 to 1995

In 1980, at independence, Zimbabwe inherited a fairly well diversified economy with an industrial base stronger than most Sub-Saharan African countries north of the Limpopo River. However, the economy was dual in nature in the sense that, while the modern sector was well-developed, there was a largely poor rural sector that employed about 80% of the labour force (ZHDR 2003). The poor had limited access to education and health and physical infrastructure was poor in the rural areas where the majority lived. The newly independent Government of Zimbabwe aimed at correcting the colonial imbalances that it inherited. In pursuing this development objective, the Government drafted several policy strategy papers/plans. The first was the "Growth with Equity" Strategy, published in 1981. This was followed by the "Zimbabwe Transitional National Development Plan" 1982–1985 (ZTNDP) and the "Zimbabwe First Five Year National Development Plan" 1986–1990 (FFYNDP).

Under these development plans, priority was given to poverty reduction, and Government spending was geared towards increased social sector expenditures. This involved expansion of rural infrastructure and redressing the social and economic inequalities that existed, including land reform. There was an expansion in education at both the primary and secondary school level and primary education became almost universal. By 1995 Zimbabwe had registered a net primary education enrolment rate of 81.9% and an adult literacy rate of 86%. Primary health care services were subsidised and immunisation programmes expanded to cover most children. On the whole, the outcome of these policies had very positive social indicators for Zimbabwe.

In 1990, real GDP growth rate was 7%, giving a real GDP growth rate per capita of 3.7%. Average inflation was 12.4% during that year having risen from 7% in 1988. Budget deficit as a percentage of GDP was 5.3%, gross national savings stood at 15.7% of GDP and gross national investment was 18.2%. Export growth was 16.2% in the same year (see Table 2 below).

Table 2: Key Development Indicators - 1988 to 2003

	1988	1990	1995	2000	2002	2003
Real GDPGrowth rate %	7.5	7.0	0.2	-8.2	-14.5	-13.9
Per Capita Real GDP Growth %	4.3	3.7	-1.3	-7.7	-14.7	-14.1
CPI Inflation (annual average) %	7.0	12.4	22.6	55.9	133.2	525.8[5]
Broad Money M3 (% change)	24.1	21.1	30.0	59.9	164.8	420.9
Official Exchange Rate (Z$ to 1 US$)	0.51	0.38	8.70	46.50	55.0	824.00
Par. Market Exch. Rate (Z$ to 1 US$)	Notappl.	Notappl.	Notappl.	59.20[6]	70.00[6]	6 000[6]
Budget Deficit (excl. Grants) as % of GDP	-6.0	-5.3	-12.2	-24.1	-14.9	-11.5
Gross National Savings (% of GDP)	19.1	15.7	20.3	11.5	3.1	-19.4
Gross National Investment (% of GDP)	15.5	18.2	25.0	13.5	8.9	4.1.
Net Foreign Direct Invest. (US$ million)	_	-12	98	16	23	5
Domestic Debt (Z$ billion)	4.8	6.7	24.5	162.1	357.0	589.0
Domestic Debt to GDP Ratio (%)	32.3	31.2	39.1	52.0	36.4	14.9
External Debt (US billion)	_	_	4.0	3.2	3.5	3.5
External payment Arrears (US$ million)	_	_	290	471.1	1,460.0	1,682.0
Export Growth (%)	17.0	15.2	14.4	-1.0	-11.8	-3.9
Import Growth (months)	_	_	3.4	1.4	0.5	0.8

Source: Zimbabwe Human Development Report - 2003 UNDP, Poverty Reduction Forum, Harare

The 1990 economic and social indicators as a reflection of the outcomes of the decade of the 1980 can now be evaluated in retrospect as having been much better than performance during the 1990s decade up to date. However, the high social sector expenditure of the 1980s was viewed to be unsustainable in the long run and this was partly because economic growth during this decade was erratic, with several low performance years being recorded during the recurring droughts. Thus on average, the economy grew at around 3 to 4% during this decade, showing signs of stagnation.

The threats of stagnation and expected eventual economic decline led Government to abandon the Second Five Year National Development Plan 1991-1995 (SFYNDP), in favour of the Economic Structural Adjustment Programme (ESAP) that was adopted in 1991 in an effort to boost the country's economic performance at a time that the country enjoyed wide international support.

The structural adjustment programme was aimed at restoring macroeconomic stability through reduced government expenditure, trade liberalisation and deregulation. The main objective of the Economic Structural Adjustment Programme was to improve the living standards of the poor Zimbabweans through the enhancement of real economic growth. In the document A Framework for Economic Reform 1991-95 (1991), the Government spells out the objectives of ESAP, as follows:

> "The fundamental objective of economic reform in Zimbabwe is to improve living conditions, especially for the poorest groups. This means increasing real incomes and lowering unemployment, by generating sustained higher economic growth. In order to achieve this primary objective, the economy needs to be transformed to make it more competitive and productive."

The Government aimed at achieving economic growth through a number of macroeconomic policies and in essence, via a shift towards the market system. The Framework document puts it this way:

> "This transformation entails moving away from a highly regulated economy to one where market forces are allowed to play a more decisive role, while concurrently taking steps to alleviate any transitional social hardships which may arise from this transition."

On the whole, ESAP created in higher levels of inflation and high interest rates that crowded out investment. The level of unemployment increased as external competition forced some firms to close down. Trade liberalisation was implemented at a pace faster than scheduled. This exposed domestic companies to international competition before they were prepared for it, in that they did not have the opportunity to modernise their plants through greater availability of foreign exchange. On the other hand, tariffs on capital equipment remained high.

Despite the seemingly timely intervention in the economy under ESAP, the decade of the 1990s generally saw a decline in economic growth and a worsening of the structural problems of high poverty and inequality. According to the first Poverty Assessment Study Survey (PASS I) of 1995, extreme poverty increased significantly during the ESAP period and 45% of households lived below the food poverty line (FPL)[1] in 1995 compared to 26% in 1990. With regards to general poverty, as measured by the total consumption poverty line (TCPL)[2], this increased from around 40% in the late 1980s to 61% by 1995.

3.2 Macroeconomic Policies from 1996 to Present

The more recent period, 1996 to 2003, has been marked by accelerated deterioration in the socio-economic situation of the country as a result of several factors. It is important to note that, during this phase, the economic reform mode, including some cost recovery measures in social services continue to be launched. On the economic policy front, the government replaced ESAP with a "home grown" reform package, the Zimbabwe Programme for Economic and Social Transformation (ZIMPREST) 1996–2000, officially launched in April 1998. ZIMPREST was short lived, having failed to get the support of international financial institutions, and hence did not achieve its intended noble goals of generating sustained economic growth in the context of social equity. In yet another attempt to address the declining economic performance, the Millennium Economic Recovery Programme (MERP) was launched in August 2001 as a short term 18-month economic recovery programme. Its objective was to restore economic vibrancy and address the underlying macroeconomic fundamentals. Unfortunately, MERP was rendered ineffective mainly due to the withdrawal of support from Zimbabwe by most of the international institutions. In February 2003, Government launched yet another 12-month stabilisation programme, the National Economic Revival Programme (NERP): measures to Address the Current Challenges, while continuing to consider options for long term economic recovery. Despite the early hopes raised under this programme, it failed to kick-start the export sector to generate the much needed foreign currency to revive the economy.

The Macroeconomic Policy Framework 2005–2006 "Towards Sustained Economic Growth" is the current national development plan that provides the national short and to some extent, medium term goals of Zimbabwe and this will be discussed below. But before doing so, it is appropriate at this point to discuss the MDGs that are a longer

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[1] FPL is the level of income at which persons can meet their basic food needs.
[2] TCPL is the level of income at which persons can meet their basic food and non-food needs.

term framework that also guided the formulation of the current macroeconomic policy framework.

3.3 Zimbabwe Millennium Development Goals

The unstable economic situation prevailing in the country and the uncertainty regarding future relations with the international community has made it difficult for the country to develop medium to long term plans. However, Zimbabwe has committed itself to implement the Millennium Development Goals (MDGs). These goals have a bearing on all other policies since the design of Zimbabwe's policies would take into consideration achievements of the goals set in the MDGs.

Zimbabwe was among the 189 Heads of State and Governments that agreed to and adopted the Millennium Declaration at the Millennium Summit of September 2000. The MDGs are as follows:

1. Eradicate extreme poverty and hunger;
2. Achieve universal primary education;
3. Promote gender and empower women;
4. Reduce child mortality;
5. Improve maternal health;
6. Combat HIV and AIDS, malaria and other diseases;
7. Ensure environmental sustainability; and
8. Develop a global partnership for development.

In 2004, the Government of Zimbabwe, with the support of UNDP, reviewed its efforts in attaining the MDGs and published the Zimbabwe 2004 MDGs progress report. The development challenges highlighted in the report are seriously taken by Government as constituting the new development vision and planning a framework for Zimbabwe. It is for this reason that the Zimbabwe MDGs reports because it gives goes a step further than most of the first generation MDG reports by giving an indication of the growth requirements for achieving the MDGs. The report also indicates a strategy for financing the goals, including budget requirements, strategy for economic growth development, productive asset redistribution, and enhanced global partnership.

Zimbabwe identified Goals 1 (poverty), 3 (empowerment of women) and 6 (HIV and AIDS) as the national priority goals. There is a strong link between poverty, gender and HIV and AIDS.

The goal of eradicating poverty is the one that has the greatest impact on macroeconomic policies and will be given more attention here. In fact this goal presents itself as the greatest challenge to development paradigms, fiscal and monetary policies. This is not to underplay the importance of the HIV and AIDS problem that is discussed at length in the section dealing with challenges facing Zimbabwe in attaining macroeconomic convergence targets.

The original targets with regards to eradication of extreme poverty and hunger were as follows:

Target 1:
- Halve, between 2002 and 2015, the proportion of people whose income is less than the Total Consumption Line (TCPL).
- Halve, between 2002 and 2015, the proportion of people in human poverty as measured by the Human Poverty Index (HPI).

Target 2:
- Halve, between 2002 and 2015, the proportion of people who suffer from hunger.
- Reduce by two thirds, between 2002 and 2015, the proportion of under-five children who are malnourished.

For Zimbabwe to achieve the above goals or make acceptable progress in that direction, the following priorities for development and development assistance were identified and need to be addressed:
- Formulating and implementing a pro-poor macroeconomic policy strategy.
- Consolidating of agricultural and rural development strategies.
- Strengthening disaster management systems.
- Developing a nutrition advocacy strategy for people living with HIV and AIDS.
- Establishing a comprehensive food and food and nutrition monitoring system.
- Consolidating formal sector employment strategies.

- Developing strategies for reversing trends in HIV and AIDS.
- Developing Land Information Management Systems.
- Consolidating existing nutrition programmes.

3.3.1 Required Growth Rate to Meet Targets

The Zimbabwe MDGs target is to reduce consumption poverty from 80% (in 2002) to 40% by 2015, and food poverty from 68% to 34% over the same period. The required rate of economic growth as measured by GDP per capita to achieve that target was calculated to be 5.5% per annum, based on a compounded formula and, assuming a population growth rate of 1.1% per annum. Therefore the required average rate of growth of real GDP is approximately 6.6% per annum between 2002 and 2015.

Table 3 below provides growth rate and time scenarios for achieving Goal 1, presented in the MDGs progress report.

Table 3: Growth Rate and Time Scenarios for Achieving Goal 1

Scenarios	Real GDP Growth required (%)	Poverty Reduction Outcome	Year of Outcome Achievement	General Comment
I	6.6	Reduced by 50%	2015	13 years Unrealistic in terms of the high GDP growth rate required
II	4 to 5	Reduced by 27%	2015	13 years A more realistic option in terms of the required real GDP growth rate
III	5	Reduced by 50%	2020	18 years A realistic option, both in terms of GDP growth and the time period required
IV	4	Reduced by 50%	2026	24 years. A realistic option in terms of GDP growth, but unacceptable in terms of the long time period required.
V	3	Reduced by 50%	2038	37 years Generally unacceptable for addressing the poverty reduction challenge.

Source: Zimbabwe MDG Progress Report 2004

In Table 3 above, various scenarios are presented. Option III was found to be realistic in respect to the required rate of growth and acceptability in terms of the time that it will take to achieve the target of reducing poverty by half. This is the basis that determines the direction of national policies and programmes.

3.4 Macroeconomic Policy Framework 2005-2006 "Towards Sustained Economic Growth" November 2004

As already pointed out, the current development policy document containing the major elements of the Zimbabwe's macroeconomic policies is the Macroeconomic Policy Framework 2005 -2006 "Towards Sustained Economic Growth" of November 2004. The previous programme, The National Economic Revival Programme (NERP) launched by Government in February 2003, anchored the macroeconomic and sectoral policies into the year 2004. The 2003 National Economic Revival Programme had a "Ten Point Plan" but its emphasis was an agriculture-led economic revival strategy. See Box 1 below.

Box 1: The Ten Point Plan

Preamble: His Excellency, The President of the Republic of Zimbabwe, during his address in April 2002, announced that the model, which must inform our economic development, should be predicated on the following broad considerations:
1. Completion of the on-going land reforms in the double dimension of A1 and A2 schemes. 2. An agriculture-led economic growth and development thrust whose premise is stimulation of small-scale agriculture through greater input and extension support. 3. An industrialisation programme that sites projects and processes within given levels of agricultural outputs. 4. An emphasis on domestic indigenous capital, which augments local ownership of the economy and partners with friendly capital from non-traditional investment markets.

5. Enlarged role for direct or indirect State participation in the economy to cause investments in well-defined strategic areas for definite strategic outcomes. This should include infrastructure and social investments to protect welfare thresholds of the first decade and provide employment to our people.
6. Focus on small and medium scale enterprises and greater support from the State.
7. Extending our experience in agriculture to transforming the ownership structures in mining and tourism in order to create wealth for our country.
8. Special focus on programmes that generate employment for the youth, including the resuscitation of enterprises that got closed.
9. Ensuring greater food supply, relief and security to beat the current and future droughts, and
10. The sustenance of our financial institutions as the funding basis of our economy.

The NERP 2003 among other issues had focused on the following key challenges that face the economy;

- Inflation reduction;
- Support for agriculture;
- Reversal of de-industrialisation;
- Support for the productive sector;
- Increased mining production;
- Development of tourism;
- Foreign exchange generation;
- Effective use of public resources; and
- Improving the supply of energy and transport.

The Macroeconomic 2005-2006 Framework outlines the vision of Zimbabwe's economic development programmes to reduce poverty and improve the standards of living of the people in line with Zimbabwe's MDGs and anchors all policy initiatives during that period. This includes guiding the current macroeconomic stabilisation efforts, that target at reducing inflation, initially to below 200% by the end of 2004, double digit levels in 2005 and single digit inflation thereafter.[3]

The specific sectoral objectives of the Framework are:

- Agriculture development;
- Industrialisation;
- Infrastructure development;
- Investment promotion;
- Social services delivery;
- Poverty reduction;
- Economic empowerment;
- Youth development and gender;
- Macroeconomic stability; and
- Strengthening institutional capacity.

The new 2005-2006 Framework was built on the Ten Point Plan of the NERP as already mentioned and was aimed at consolidating the gains achieved during the implementation of that programme and also to strengthen policy implementation and coordination. When the macroeconomic framework was designed, the country continued to face challenges in the areas of inflation reduction, foreign currency generation, capacity utilisation, infrastructure and public service delivery.

The new Framework identified macroeconomic stabilisation as one of the crucial challenges that needs to be addressed. In this regards, it set out macroeconomic targets for the years 2005 and 2006 and these are presented in Table 4 below.

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[3] Year on year inflation was 622.8% in January 2004 and had declined to 251.5% by September 2004. (It is now above 1 000%).

Table 4: Macroeconomic Targets 2003-2006

	2003 (Actual)	2004 (Actual)	2005 (Targets)	2006 (Targets)
GROSS DOMESTIC PRODUCT (GDP)				
Real GDP market prices growth rate	- 8.5%	- 2.5%	3.5 - 5%	5%
SAVINGS AND INVESTMENT				
Gross national savings (%of GDP)	-5%	4.3%	-1.7%	5.1%
Gross national investment (% of GDP)	9%	10%	12%	20%
INFLATION				
CPI inflation annual average	3.65%	382%	90%	40%
CPI inflation at end of period	599%	150160%	30-50%	7-9%
BUDGET				
Deficit (% of GDP)	3-5%	3-5%	2-3%	0.3%
MONEY (M3)				
Broad money growth at end of period	416.5%	181.2%	60%	12-20%
EXPORTS				
Export growth	-13.6%	-7.5%	12.7%	16.3%

Source: "Towards Sustained Economic Growth" – Macroeconomic Framework 2005-2006, Government of Zimbabwe, November 2004.

A number of measures were tabled for implementation in meeting these challenges so as to meet the targets as set out. To ensure prudent fiscal policy, Government decided to do the following:

- Continue to strengthen and implement measures that focus on matching revenues with expenditures.
- Develop a financial management legal framework.
- Develop further the Public Finance Management System (PFMS).
- Improving financial management of parastatals and monitoring their debt portfolio.

These measures are expected to keep the budget deficit low, improve financial management in all government departments and avoid expenditure overruns. Measures aimed at controlling expenditures are expected to compliment these. These measures involve strengthening the Implementation and Control of Expenditure Unit (ICEU) and imposition of penalties in terms of regulations governing management of public resources to reduce wasteful expenditures by Ministries and Departments. Government would invoke the Audit and Exchequer Act for all Ministries that incurred unauthorised expenditures.

The following measures, among others, were to be put in place to improve revenue mobilisation:

- Widen the tax net, enhance revenue collection and minimise revenue leakages;
- Strengthen the Zimbabwe Revenue Authority (ZIMRA);
- Introduce mechanisms for taxing the informal sector;
- Limit tax exemptions to social needs; and
- Update the registration of companies for all companies to pay tax.

3.4.1 Monetary Policy

Monetary policy is supposed to complement fiscal policy to achieve macroeconomic stability by reducing inflation, making real interest rates positive and bringing stability in the financial markets. Monetary policy in Zimbabwe is exercised through the RBZ. Box 2 below presents the mandate of RBZ in accordance with section 6 of RBZ Act (Chap22:15).

Box 2: Statutory Functions of Reserve Bank of Zimbabwe

1. To regulate Zimbabwe's monetary system; and
2. To achieve and maintain the stability of the Zimbabwe Dollar;
3. To foster the liquidity, solvency, stability and proper functioning of Zimbabwe's financial system;
4. To advance the general economic policies of the Government;
5. To supervise banking institutions and to promote the smooth operation of the payment system;
6. To formulate and execute the monetary policy of Zimbabwe;
7. To act as banker and financial advisor to, and fiscal agent of, the State;
8. Whenever appropriate, to represent Zimbabwe in international or intergovernmental meetings, multilateral agencies and other organisations in matters concerning monetary policy;
9. To provide banking services for the benefit of foreign governments, foreign central banks or other monetary authorities and international organisations of which Zimbabwe is a party;

10. To participate in international organisations whose objective is to pursue financial and economic stability through international monetary cooperation;
11. To undertake responsibilities and perform transactions concerning the State's participation in or membership of international organisations.

Source: RBZ Monetary Policy Statement January 2005

From 2003, with the appointment of the new Governour in 2003, RBZ started to play a more visible if not aggressive role in undertaking its mandate with some, fearing that the Central Bank was probably going beyond its mandate. But this might be a reflection of the need to have an integrated approach to monetary and fiscal policy to ensure that they do not undermine each other in achieving national development goals, but rather, compliment each other.

In December 2003, the Governour of RBZ in his Maiden Monetary Policy Statement, announced Vision 2008 (later on revised to Vision 2007), that aimed at resolving the major socio-economic challenges that have been confronting the Zimbabwean economy by establishing a robust productive system characterised by the following:

- Low and stable inflation;
- A stable currency;
- Rising savings and investment;
- Reduced unemployment;
- Adequate foreign exchange flows;
- Thriving, vibrant and disciplined private and public sectors;
- A culture of discipline, hard work and honesty among all Zimbabweans;
- A Zimbabwe with a positive image in the financial and investment circles the world over;
- A Zimbabwe which timeously pays its debts and honours all obligations to which it is a party, financial or otherwise;
- A Zimbabwe which upholds property rights and welcomes investment from across the globe for the betterment of its people; and
- A Zimbabwe which is a beacon of hope for all its citizens, a regional economic power house of consequence.

The overall objectives of monetary policy are consistent with those of fiscal policy.

Given that inflation has been seen as "the number one enemy whose containment requires total and unwavering commitment and the collaboration of stakeholders", successive monetary policy frameworks, from December 2003 (and before), have taken various measures to address this problem, taking into consideration the prevailing situation, but so far without sustained success. The December 2003 Monetary Policy set the following targets for the monetary policy.

12 Months to December 2004:

- To reduce inflation from the expected initial peak of 700% in early 2004 to the range of 170-200% by December 2004.

24 Months to December 2005:

- Reduce inflation to below 100% (from three to two digit figures).
- Convergence of the exchange rate into a stable currency with one exchange rate.
- Move away from the dual interest rate policy and make real interest rates positive.

5 Years to December 2008 (subsequently revised to 2007):

- Reduce inflation to between 5–9%.
- Entrench Inflation and currency stability to have a "healthy economy".

3.4.2 Measures Taken to Achieve Goals and Targets

The bank aimed to pursue a tight monetary policy and contain money supply (M3) growth from around 500% by December 2003 to 200% by December 2004.

For the first 12 to 18 months, a dual interest rate policy was adopted. This was aimed at encouraging economic growth while fighting inflation by discouraging speculative and consumption borrowing. Interest rates on consumption, speculative and other non-productive activities were to attract unsubsidised market related rates. Industry and commerce, including the public sectors of the economy were given time to adjust their operations, adjust their balance sheets and boost their production bases using subsidised financial resources.

RBZ established the Productive Sector Facility as a part of the supply side in response to the Bank's anti-inflationary drive. In this regard, the RBZ made financial resources available to commercial banks for on-lending to troubled companies in the productive sector at concessionary interest rates.

The reserve requirement ratio for commercial and merchant banks' savings and time deposits was increased from 20% to 30% and that of finance houses from 5% to 15%. For the first time, RBZ imposed statutory reserve requirements to discount houses and this was pegged at 30% on their non-bank deposits and 30% on 75% of building societies deposits that do not support mortgage lending.

In this regard, the new Framework envisaged a continuation of the restrictive monetary policy, which has the dual purpose of supporting the productive sectors through concessionary financing facilities. Further supervision and surveillance of the financial sector to ensure compliance with the Banking Act was given priority.

The financial sector plays a very important role in facilitating and supporting economic growth. It is therefore important for the country to have an effective, efficient and resilient financial system that is responsive to the changing economic requirements. The financial sector plays an intermediary role and should mobilise and channel savings towards investment.

In view of the need to safeguarding the stability of the financial system, RBZ's supervisory role was strengthened and the powers for licensing and/or withdrawal of licences were shifted from the parent ministry to the Reserve Bank in December 2003.

3.4.2.1 Exchange Rate Management

From the late 1990's up to 2003, Zimbabwe operated a fixed exchange rate regime and internal economic dynamics show that this system was inappropriate. The exchange rate was overvalued as reflected by the existence of a foreign exchange parallel market. The RBZ considered other options. The **Free Float System** was considered inadvisable in a thin market such as Zimbabwe. The **Managed Crawl** system, based on inflation differentials with Zimbabwe's major trading partners, was also considered and judged to be inadvisable at that stage. The **Tradable Certificate of Deposit** system (CDs) was also considered and found to fall short on certain attributes and was therefore disregarded.

With effect from January 2004, Zimbabwe adopted the **Controlled Auction** approach for the foreign exchange management system. Under this system, foreign exchange is auctioned through a **Currency Exchange** – an independent body that operates under the supervision of RBZ. Under the controlled auction system, exporters discharge CD1 forms on the basis of gross export proceeds and they can retain 50% of their foreign exchange earnings in their Foreign Currency Accounts (FCA). The FCA are maintained with RBZ and have a time limit within which the foreign currency has to be used – initially set at 60 days. After the set period, exporters are required to liquidate their FCAs into the market. Of the remaining 50% of export earnings that is not retained in the FCAs, half (25% of total earnings) is sold immediately to the auction market at the ruling auction rate while the remaining other half, (25%) is surrendered to the RBZ at the prevailing official (fixed) exchange rate – at time of study Z$800 per US dollar. This foreign exchange was reserved for critical imports and other Government requirements.

3.4.2.2 Balance of Payments

The new Framework aims at improving the Balance of Payments (BOP) through the increased export of value added goods as opposed to traditional primary commodities. The Framework adopted the strategy of broadening export markets and encouraging the exploration of non traditional markets such as Latin America and Asia. In this regard, it is necessary to strengthen national institutions involved in supporting export activities such as the Export Credit Guarantee Company of Zimbabwe (ECGCZ) and ZimTrade; establishment of the Zimbabwe Export Import Bank. The Framework requires negotiation with existing and potential financers for loan rescheduling and new financing but at the same time ensuring timeous repayment of loans and credits to external creditors.

3.5 Inflation and Budget Deficit – Implications for SADC

On the whole, Zimbabwe has been experiencing relatively high and certainly increasing rates of inflation since the end of the 1980s decade. Fiscal deficits have been observed to be typically at the heart of inflation in developing countries, particularly high and hyper-inflation.[4] Countries that implemented structural adjustment programmes were required to set targets for reducing budget deficits (in addition to monetary policy) as one of the means of reducing inflation and attaining macroeconomic stability.

SADC identified core inflation and budget deficit as indicators of convergence, among others, that are aimed at achieving macroeconomic stability. In this regards, as pointed out before, the target is to reduce inflation to 9% by 2008 and down to 3% by 2018. Budget deficit as a percentage of GDP should be reduced to 5% and 1% over the same period. This is in line with the conventional wisdom that associates high budget deficits with inflation. Therefore the major reason for setting targets to limit Government expenditures to some proportion with respect to revenue is to contain the rate of inflation.

In the case of Zimbabwe, this relationship between budget deficit and inflation is not so obvious. The exchange rate and foreign currency availability appear to have a very strong bearing on inflation. Prior to the adoption of the structural adjustment programme in 1991, inflation in Zimbabwe was a result of a serious shortage of commodities on the market due to supply bottlenecks. These came about because of foreign exchange shortages that constrained the availability of imported inputs and spare parts for maintaining production machinery and equipment (see Zwizwai and Ndoro). Therefore, inspite of efforts made to reduce government expenditure and other demand management measures implemented during ESAP, inflation rose from 12.4% per annum in 1990 to 22.6% by 1995.

The 2005 IMF country study on Zimbabwe also found out that "the normally positive relationship (between fiscal deficits and inflation) is not immediately evident in Zimbabwe for the period 1997 and 2004" The same study argued that the deficit-inflation relationship has been

[4] "Zimbabwe: Selected Issues and Statistical Appendix", IMF Country Report No. 05/359, October 2005.

influenced, in recent years by an overvalued exchange rate and quasi-fiscal activities of the Reserve Bank of Zimbabwe (RBZ), including producer and credit subsidies, exchange related losses from multiple exchange rates, and interest payments on sterilisation operations.

1997 to 2000

Between 1997 and the year 2000, budget deficit increased and rose to nearly 18% (24.1% excluding grants). During this period, year on year consumer price inflation rose from 24% in January 1998 to 55% in December 2000. Budget deficit and inflation exhibited a positive relationship as is usually expected in the long run. The budget deficit is explained, among other things by, a large unbudgeted payment to war veterans in 1997 that was followed by significant increases in the salaries of civil servants prior to the 2000 elections. At the same time, the IMF suspended its support to adjust programmes in Zimbabwe and thus Government had to make up for at least some proportion of the shortfall in expected external financing.

2001 to 2003

During this period, contrary to conventional wisdom, inflation continued to rise from 112.1% in 2001 to nearly 600% in 2003 and during the same period, budget deficit on a cash basis, declined from 5.5% of GDP (7.5% on a commitment basis) to a near balance by 2003. Government controlled expenditure, particularly on the wage bill. The government wage bill was allowed to decline in real terms as inflation continued to accelerate and as a result, that wage bill fell from 16.5% of GDP in 2000 to less than 7.5% of GDP in 2002. However, during the same period, money supply grew sharply and this was because of credit to non-government sectors as the quasi-fiscal activities of RBZ expanded. Money supply growth rate increased from about 100% in 2001 and picked up to 400% by the end of 2003.

During this period, the exchange rate remained pegged initially at Zim$ 55/USD 1 and then revised to Zim$ 824/USD 1, but all the same the exchange rate was overvalued as reflected by parallel illegal market operations.

2004

During this year, Government expenditures rose sharply from the range of 20-27% between 2001 and 2003 to 40% of GDP in 2004. Although revenues increased considerably because of the introduction of value added tax (VAT), the fiscal position deteriorated. The increase in government expenditure, ahead of the 2005 parliamentary elections, on wages, capital project and transfers was much higher than the increase in revenue.

The Reserve Bank tightened monetary policy, and interest rates rose sharply in the first quarter of 2004. Government shifted the financing of the fiscal debt from RBZ to public borrowing through sales of treasury bills. Expansion in net credit to Government from RBZ was contained, money growth slowed and inflation declined to around 133% by the end of 2004 compared to around 600% a year before – all this happened despite the growing budget deficit. The shift of Government from borrowing to non-RBZ sources was reflected in the share of Government in overall credit growth that increased from 17% in 2003 to 31% in 2004. Government maintained subsidised credit facilities on producers from the high real interest rates and the increasingly overvalued foreign exchange rate on the auction market.

3.5.1 Implications on SADC Regional Integration

The above experience of Zimbabwe with regards to inflation and budget deficit raises at least two issues of relevance to SADC regional integration. The issue about the trends of inflation and budget deficit in Zimbabwe raises the concern about how these relate to the SADC targets of macroeconomic convergence. The second issue relates to the theoretical underpinnings or assumptions that are related to the relationship between budget deficit and inflation in so far as achieving macroeconomic stability is concerned. A third matter that will arise later on, is the extent to which macroeconomic targets (or projections) in current or operating development plans can be a sufficient basis to assess whether a country is moving towards attainment of SADC macroeconomic stability convergence targets or not.

Zimbabwe: Missing the Inflation and Meeting the Budget Deficit Convergence Targets?

Zimbabwe is in a peculiar situation not found in other SADC countries. After embarking on the land reform programme in 2000, in the form that it took, Zimbabwe went on to a head-on collision with the developed Western countries, particularly the UK and the USA. The country also delayed in meeting its obligations with international financial institutions and was suspended from IMF support. The long and short of it all is that Zimbabwe became isolated by the Western international community under the conditions of targeted sanctions.

Since 2000, Zimbabwe has been experiencing conditions of high and hyper-inflation never experienced before. Inflation declined in the year 2004, only to start rising again the following year up to this time (March 2006). First of all, it is quite obvious that Zimbabwe is far from the convergence targets set by SADC with respect to inflation. Secondly, it is obvious that the inflation trends prevailing in the country are undesirable both for macroeconomic stability and the achievement of national development goals and objectives as announced in the country's development plans and the Zimbabwe MDGs. Thirdly, Government is committed to achieving the SADC convergence targets as is reflected by the over-ambitious self-set targets that in some cases are unrealistic given the prevailing economic conditions and relations with the international community.

The setting out of macroeconomic targets in Zimbabwe is influenced by a number of factors. One factor is the desired outcomes – in so far as such outcomes are expected to improve the standard of living of the populace and in that regard, meet the overriding goal of reducing poverty in accordance with the MDGs. Another important factor that determines setting of targets is the underlying assumption about exogenous factors. In the case of Zimbabwe, two such factors are very important. These are rainfall and international relations.

With regards to rainfall, Zimbabwe is an agriculturally based economy with industry having strong linkages with the agricultural sector. Over the years, economic performance has been very strongly correlated to agricultural performance. In fact Zimbabwe used to be the bread basket of SADC and was food self sufficient. Economic performance declined in years of drought, especially when these became successive. The setting of high and ambitious macroeconomic performance indicators in the current Macroeconomic Policy Framework that are in line with achieving SADC macroeconomics convergence targets are a reflection of positive expectations with regards to agricultural performance over the plan period. This is also reflected by current serious Government efforts to rehabilitate irrigation schemes and open new ones so as to ensure that the country attains at least food self sufficiency during years of drought.

On the aspect of international relations, Government has been making efforts to have these normalised, particularly through the RBZ. The Governour of the RBZ has on several occasions repeated that Zimbabwe will continue to pay its international obligations and engage the international community to normalise relations. Indeed, Zimbabwe has made great strides in paying off its international debts under very difficult conditions of national foreign currency shortages, particularly given other competing national priorities such as fuel and electricity procurement requirements.

It is with this background of expectations and/or assumptions that targets that are unrealistic are set. Violation of the assumptions leads to wide disparity between the planned targets and the actual outcomes. Unfortunately such disparities have happened more often than not in the case of Zimbabwe.

The implications for this with regards to achieving macroeconomic stability in Zimbabwe is that, it appears attainment of such stability is determined by factors well beyond the realm of macroeconomic variables such as government deficit. Stability requires addressing fundamental structural problems facing the real economy; creating a national environment conducive for business with minimum uncertainty, and restoring normal international relations.

The Governour of RBZ recognised the multidimensional aspects of inflation in Zimbabwe and that the challenges facing the country defy attempts to "box" them into some theoretical or traditional economic phenomena as known.

"Our inflation levels, for instance, cannot be attributed to simple cost-push/demand-pull forces as we traditionally know them; a great deal of it is to do with such human-behavioural vices as greed, speculation, negative self-fulfilling expectations, lack of confidence, weakened patriotism and commitment to the country, short-termism, corruption and politics; the treatment of which will require more than a set of Monetary or Fiscal policies and pronouncements" (Monetary Policy, December 2003).

Box 3 below details the causes of inflation in Zimbabwe from the RBZ's perspective.

Box 3: Causes of Inflation in Zimbabwe from the RBZ's Perspective

1. The foreign exchange shortages and parallel market activities which have effectively dollarised this economy from property rentals/purchases to many other non-forex consuming goods and services.
2. Imported inflation arising from 1. above, especially arising from the iniquitous parallel market forces in the country, as opposed to major price changes at source.
3. Shortages of basic commodities due to factors such as drought, sheer greed, as well as hoarding for speculative purposes, grey market forces reacting to ineffective and sometimes ill advised across the board price controls and inadequate output at the factory level due to shortages of forex for essential capital and working capital purposes.
4. Loose monetary policies which have given rise to high money supply (M3) growth.
5. Self-fulfilling high inflation expectations, practices and behaviour leading to inexplicable, fundamentally-flawed pricing decisions, logic-defying practices and parochial actions by individuals, firms and sectors of the economy.
6. High and persistent government budget deficits.

7. Misuse of concessionary resources meant to support the productive sector but misdirected towards financing consumptive and sometimes speculative ventures and forex parallel market activities.
8. Every one of grey market activities for goods and services, fuel, cash and other basic items.
9. Corruption to the extent that it involves the externalisation of forex, under-pricing, transfer pricing of goods and services produced in the country, smuggling of precious minerals, agricultural inputs and outputs as well as other forms and practices which diminish or rob the country of economic outputs produced from the country's resources and inputs.
10. Side-kick effects from parastatal financings especially where the parastatals charge less than break-even prices for their activities and end up seeking support from the fiscus or directly from RBZ.
11. Asset-driven price inflation arising from the diversion of savings from banks into real-estate, forex purchases, equities, vehicles and other forms of consumptive spending due to lower than inflation interest rates. This scramble of property is crowding out credit from real productive activities thereby causing capacity constrains at the supply level.
12. Lack of international balance of payments support.
13. Inaccurate business, social and political reporting by the media which has tended to fuel rampant speculation and caused the populace to take positions that worsen the situation. Cooperation with the media and accurate media reporting of issues will be a key source of inflation stabilisation.

Source: Monetary policy Dec 2003 – Appendix 7

It is encouraging to note that the RBZ does realise the complex nature of sources of inflation and in this regards has attempted to take approaches that are broader than money growth management in its attempt to deal with the problem. This is a clear departure from past practices of RBZ that tended to confine itself to traditional money supply control.

The Zimbabwe experience points out at the fact that some of the traditionally expected relationships between macroeconomic variables that have been used for setting targets may not exist all the time. The setting of targets needs to be closely linked to development objectives, taking into consideration specific conditions faced by different countries. It may become necessary for a given country to fulfil certain targets while violating others, in order to meet the required development objectives. For example for a country like Zimbabwe that is not receiving assistance from international financial institutions, it might be necessary to increase budget deficit in order to meet growth targets and social development indicator targets and objectives. Similar apparent contradictions are observed with regards to trade related indicators that are discussed in section 4 below.

4 Trade Policy Framework

At independence, in 1980, Zimbabwe inherited a trade policy that was linked on exports to Zambia, South Africa, Malawi and Botswana. The re-entry of the country into the international community opened avenues to new markets. The country immediately became a member of the Southern African Development Co-ordination Conference (SADCC), with prospects of a wider regional market. It also became a member of the Lome Convention, and obtained preferential entry for agro-exports in the European Economic Community markets. Further, Zimbabwe joined the Preferential Trade Area (PTA), accessing a closer but extra-regional market in Southern and East Africa. In addition, the Government negotiated trade (barter-type) agreements with a number of socialist countries: North Korea, the former Yugoslavia, Hungary, Cuba, China, etc.

The post-independence trade policy, evidently, did not seek world market penetration for industrial produce. Instead, the trade policy thrust sought three aspects:

- Accessible markets for raw agricultural materials and products;
- Preferential treatment in markets where quality and competition would be obstacles to surmount, given the domestic base which was still short of major skills, capital and technology; and,
- The publicity and attraction of foreign investment by among other things, opening up more embassy missions.

The trade policy of Zimbabwe in the 1980s was influenced by the general development thrust of Import Substitution Industrialisation (ISI) that was pursued. Under this policy, the foreign currency allocation mechanisms were used to determine imports on the basis of national development priorities. Government also promoted exports through such schemes as the export revolving fund, the export retention scheme and the incremental export bonus scheme. There was therefore a period during which ISI was encouraged under a protective trade regime, and at the same time, exports were encouraged through the foreign exchange allocation system.

In 1990, Government abandoned the ISI strategy in favor of an open market economy, by adopting ESAP. The main thrust of this trade policy was to shift away from the system of excessive controls on foreign exchange allocation, to a more market-based system. Imports were to be liberalised. Most items were to be imported through the Open General Import Licence (OGIL) system, which previously was very restricted. The introduction of a more favourable tariff structure was part of the reform - i.e. a tariff structure that would enhance the competitiveness of industry. On the whole, trade liberalisation entailed removing quantitative restrictions on imports, while reducing the level of tariff protection.

Most SADC countries went through similar adjustment programmes, and their guiding development philosophy has largely remained the same – namely the neo-liberal approach where the private sector takes the lead in development, with the Government's role largely confined to creating a national macroeconomic environment that is conducive to private sector development.

SADC entered into a Trade Protocol that came into effect at the beginning of September 2000. The overall target is to have 85% of all intra-SADC trade at zero tariffs level by 2008 and the remaining 15% is to be liberalised by 2012. This would effectively lead to the establishment of a free trade area.

Zimbabwe is one of the few countries in SADC endowed with a diversified export base, both at sectoral level and within sectors. In mining, Zimbabwe has gold, platinum, nickel granite, asbestos and diamonds. In agriculture, the country has tobacco, cotton, beef, sugar, tea, coffee and horticultural products. The country also exports a variety of manufactured products, although the industrial base has been shrinking. In tourism, hunting has emerged as an important source of foreign currency. Table 5 below shows the major exports in Zimbabwe that demonstrate the diversity of the national export base.

Table 5: Exports by Commodity 1998-2004 (Values in million of USD)

	1998	1999	2000	2001	2002	2003	2004
Agricultural Exports	**805.5**	**844.4**	**855.8**	**832.8**	**646.6**	**516.0**	**384.2**
Tobacco	523.8	612.0	548.7	594.3	434.7	321.3	226.7
Sugar	62.9	51.5	96.4	70.0	64.2	54.8	53.9
Maize	46.4	9.1	2.5	0.0	0.0	0.0	0.0
Cold Storage Co. Beef	32.1	32.6	39.7	22.7	2.3	0.2	0.0
Coffee	51.2	37.2	17.1	15.0	5.4	5.9	4.1
Horticulture	67.0	82.6	125.4	118.9	126.6	118.7	84.1
Other Agricultural	22.2	19.4	26.1	12.0	13.4	15.0	15.4
Mineral Exports	**395.2**	**387.0**	**440.4**	**390.8**	**297.8**	**390.8**	**604.2**
Gold	236.1	229.7	216.4	225.8	159.5	152.3	262.8
Asbestos	36.1	35.6	61.1	60.0	39.3	42.4	19.4
Nickel	44.2	48.1	77.9	35.2	31.8	68.5	95.7
Platinum	3.4	3.5	11.4	17.5	14.5	77.4	174.4
Copper	4.1	5.3	8.0	0.6	8.9	4.6	2.6
Other Mineral	58.1	64.8	65.5	51.7	43.8	45.6	49.3
Manufacturing Exports	**629.4**	**609.1**	**814.9**	**313.5**	**287.3**	**691.2**	**620.9**
Ferrous Alloys	143.1	152.1	154.8	81.8	106.8	119.8	185.1
Cotton Lint	150.1	111.9	156.0	81.9	53.2	67.2	122.1
Iron and Steel	8.3	12.5	15.0	3.5	22.3	39.9	22.9
Textiles & Clothing	58.0	59.3	79.3	20.2			
Machinery & Equipment	12.4	17	50.6	8.6	5.2	12.8	1.9
Chemicals	25.8	27.3	64.3	5.8	3.5	5.1	9.6
Other Manufacturing	**231.6**	**229.0**	**294.9**	**111.7**	**78.6**	**418.2**	**265.5**
Total Exports	**1,924.9**	**1,924.5**	**2,200.5**	**1,575.2**	**1,397.9**	**1,670.3**	**1,679.7**

Source: Statistical Appendix IMF Country Report No. 05/359

Zimbabwe's trade policy is guided by the general approach to industrialisation that give priority to both domestic and foreign trade as important instruments for development and industrialisation.

According to the Draft National Export Strategy, the goals in this area are as follows:

- To maintain the growth and market shares of products that have already established a competitive advantage in world markets;
- To develop new competitive advantages in manufacturing and services;
- To achieve optimum national growth through an increase of exports in regional and international markets;

- To narrow down the gap between the country's export earnings and import payment through the achievement of the export targets; and
- To establish backward linkage industries and services with a view to using more local raw materials, expand the product base and identify and export higher value added products.

4.1 Bilateral and Multilateral Trading Arrangements

Zimbabwe has more than 40 Bilateral Trade Agreements that fall into the category of Most Favoured Nation (MFN) status. The country has also Bilateral Preferential Trade Agreements with Botswana, Democratic Republic of Congo, Malawi, Mozambique, Namibia and South Africa. The country is also negotiating preferential trading agreements with Iran and Zambia.

Zimbabwe is a member of the following regional multilateral organisations:

- SADC;
- COMESA;
- African Caribbean and Pacific States/European Union Agreement (ACP/EU) that will soon be replaced by the Economic Partnership Agreements (EPAs);
- Regional International Facilitation Forum (RIFF);
- Generalised System of Preferences (GSPs);
- Group of Fifteen; and the
- World Trade Organisation (WTO).

The country is seriously exploring new external trade markets and has adopted what has been termed the "Look East" Policy. This policy was prompted by the deterioration of economic and political relations with the traditional Western trading countries and the withdrawal of financial assistance to the country by the international financial institutions. The Asian countries have large markets, have been experiencing high growth rates and do not use stringent technical barriers to trade or bar trade from other countries.

4.2 Trade Promotion

To facilitate efforts directed at exploring new markets and increase exports in the traditional markets, the Zimbabwe Draft National Export Strategy, has a number of initiatives to be undertaken in this regards. The National Trade Development Organisation, Zimtrade, has an important role to play in these endeavours.

The mission of Zimtrade is to assist businesses in Zimbabwe to develop and expand profitable international trade in products and services by:

- Identifying and developing export markets;
- Market and product research;
- Trade promotion missions to and from other countries;
- Trade publications;
- Assistance in trade policy formulation and bilateral and multilateral trade negotiations;
- Training and development of SMEs and new exporters;
- Offering Matching Grant Finance; and
- Providing information on sources of raw materials, exports and imports.

Zimtrade is developing a trade map for Zimbabwe. This will enable Zimbabwean exporters to identify new markets around the world and product opportunities as well as evaluate market access barriers. The Trade Map will enable potential exporters to access the following features:

- Analysis of present export markets;
- Pre-selection of priority markets;
- Overview of competitors in global and specific markets;
- Review of opportunities for product diversification in a specific market; and
- Information on tariffs and non-tariff barriers.

Government recognises the strategic importance of Zimtrade in promoting trade and therefore plans to strengthen its activities.

The Zimbabwe Revenue Authority (Zimra) will be encouraged to make speedy repayments of VAT refunds. Zimra is involved in trade facilitation through simplifying and harmonising customs administration procedures.

In light of the computerised CDI forms, it is important to institute an interactive system for the computerisation of the Customs Duty Tradable Export Incentive Certificate (CDTEIC) with the existing systems of monitoring CDI. This will automatically and timely result in the issuance of Customs duty Tradable Export Incentive Certificates, as distinct from inordinate delays (occasioned primarily by exporters banks) presently pertaining.

4.2.1 Financial Support to Exporters

Since ESAP was implemented Zimbabwe faces the problem of de-industrialisation. Many companies closed down due to the impact of external competition and an unfavourable economic environment. The strategy of Government is to encourage new entrance in the export market and support the traditional exporters. Several financial support measures have been proposed in the Draft National Export Strategy. These are presented in Box 4 below.

Box 4: Financial Support to Exporters

Project Finance

Finance will be made available to projects in neighbouring countries that generate export receipts for the country. The essential components of this approach is a long term commitment to relationship-building with procuring officials in target markets, and an early indication for procuring officials that government financing or technical assistance will likely support a project.

Zimbabwe is likely to benefit from this approach since the country has comparative advantages in engineering, construction and other services provisions. A market window, i.e. a government-owned or directed institution which operates on commercial basis, but benefits from some level of government support, can be used to achieve the objective.

Concessionary Funding

Zimbabwe will, in the medium term, make use of concessionary funding to support the productive and export companies. In this regard, lending activities that offer flexible terms and conditions will be made available to qualifying companies.

"Tied" Aid

Since Zimbabwe has comparative advantages in many areas, especially at the regional level, it will increase foreign receipts through aid to other regional countries which are less competitive. For instance in agricultural equipment, road and dam construction, Zimbabwe can assist other countries such as Angola, DRC and Uganda as a strategic move in order to penetrate the markets. Aid is used as a strategic tool worldwide, to create employment at home and facilitate exports to recipient countries. Zimbabwe will, in the long run, continue to supply services and components to the recipient countries.

Other Export Incentives

Assistance and support will be provided to producers and exporters of new and non-traditional items including those under value addition in the Industrial Development Policy. Assistance will be given under the following:

- Assistance in obtaining foreign technology and consultancy for product development and diversification;
- Venture capital on easy terms and low interest rates;
- Assistance in fielding marketing missions abroad and participating in international fairs; and
- Assistance in establishing sales centres, particularly establishing retails centres instead of warehouse centres.

4.2.2 RBZ Administered Export Incentive Schemes

There are a number of Export Incentive Schemes (EIS) administered by the RBZ under the Exchange Control Act and these include the following:

The first is the Free On Board (FOB) Export Incentive Scheme. This is made available in the form of tradable duty exemption certificates valued at amounts equivalent to a specified percentage of the value of the exporter' acquitted CD1s. The Duty Exemption Certificates are redeemed through the use of Duty Payment Vouchers drawn against these certificates to settle import duty on capital goods, raw materials and spares, as might be specified by the Zimbabwe Revenue Authority (Zimra). This incentive was reviewed upwards from 10% of the FOB value of exports to 15% with effect from January 2004.

The second EIS involves exemption from the 50% foreign earnings requirement on incremental exports. This scheme commenced in July 2003 and allows exporters to retain 100% of their earnings arising from incremental exports. The incremental value of the exports is calculated on a quarterly basis.

The other EIS is what has been termed the Carrot and Stick Export Retention Scheme. This scheme is aimed at providing incentives to exporters to fully repatriate their export earnings into the country as early as possible by rewarding exporters on the basis of the acquittal period. Exporters who declare their earnings and/or repatriate their foreign exchange within the shortest period would be allowed to retain more foreign currency for their own use than those who take longer or are inefficient when it comes to their debtors control.

4.2.3 Export Processing Zones – Export Incentive Schemes

Export Processing Zone (EPZ) companies that are locally registered and locally owned are now subject to the same foreign exchange surrender requirements applicable to all other exporting companies as outlined above. However, locally registered but foreign owned EPZ companies are exempted from the foreign exchange surrender requirements. However, such companies would be required to pay their electricity and fuel bills in foreign currency.

The SADC trade performance indicator for macroeconomic convergence is the current account deficit as percentage of GDP and external reserves measured in terms of months of import cover. The targets set for the current account deficit are an attainment of a current account deficit of at most 9% by 2008, and having this reduced to 3% of GDP by 2018. With regards to external reserves, these are supposed to be built up to meet the normal requirements of 3 months worth of imports by 2008 and 6 months import cover by 2012.

Table 6 below shows Zimbabwe's performance with respect to the set targets of these indicators.

Table 6: Balance of Payments 1998-2004

	1998	1999	2000	2001	2002	2003	2004
Current account balance as % of GDP	-4	0.5	-0.4	-1	-2.6	-4.6	-5.7
Import cover excluding official transfers	0.3	0.2	0.1	0.1	0.1	0.1	0.1
External Trade indicators Exports (USD) % change (1990-100)	-20.6	0	14.3	-3.9	-14.7	-7.3	0.6
Imports (USD) % change (1990=100)	-23.9	-17.1	13.9	-6.1	1.6	-2.3	11.9

Source: IMF Country report No. 05/359

Zimbabwe is already performing better than the target indicators with respect to current account deficit. This is partly because the country has a diverse export base as already pointed out. But more important, the supposedly good performance with respect to this indicator is actually a reflection of suppressed import demand due to unavailability of foreign currency and lack of financial support from international financial institutions. The new export drive is likely to improve the position of the current account balance. An interesting point that emerges from this situation is that the attainment of a near balance in the current account does not necessarily reflect a desirable situation.

When it comes to the level of foreign reserves Zimbabwe is far away from this SADC indicator of macroeconomic convergence. Since 1999, the foreign reserves have been at only 3 days of import cover compared to the target of 120 days by 2008 and 240 days by 2018. The limited import cover juxtaposed with low deficit on the current account reaffirms the situation of suppressed import demand due to shortage of foreign currency and limited options in this regards – surely not a very healthy situation. Achievement of numeric macroeconomic targets should be looked at within the context of achieving development goals. The fundamental objective should not be simply to achieve targets at all costs.

The apparently healthy situation of Zimbabwe with regards to the balance of trade target indicator is not healthy at all. An initial imbalance is actually necessary by way of increasing imports so as to stimulate production and bring about efficiency in the industry that produce tradable goods and basic commodities at affordable prices.

5 Labour Market Policies

5.1 Industrial Relations

At independence in 1980, the Government of Zimbabwe adopted an industrial relations philosophy that was characterised by the desire to protect workers from exploitation, given the situation that prevailed prior to independence. The need to protect workers was also necessary because the labour movement was weak and faced organisational problems. In pursuit of this objective, Government put in place legislation that provided for the fixing of national minimum wages, below which payment would be illegal. The Minister responsible for labour had control over the termination of an employee's contract. The Minister was empowered to further regulate industrial relations in any way s/he deemed fit through the use of subsidiary legislation. It is interesting to note though, that this period was characterised by the outlawing of industrial action or collective job action – and this prevented workers from withdrawing their labour as a means of collective bargaining leverage.

A major turn around in Zimbabwe's industrial relations occurred with the enactment of the Labour Relations Amendment Act Number 12 of 1992 after the adoption of ESAP. Government took a policy of withdrawing itself from the centre stage of industrial relations. Codes of conduct negotiated between employers and employees at Works Council or Employment Council level were provided for, but these were to be registered with the Ministry of Labour. Dispute settlement would now start at the work place and would only go beyond on appeal.

The Labour Relations Amendment Number 17 of 2002 stated the Act as meant to advance social justice and democracy at the work place by:

- Giving effect to the fundamental rights of employees provided for under Part II (of the Act);
- Giving effect to the international obligations of the Republic of Zimbabwe as a Member State of the International Labour Organisation and a member of or party to any other international organisation or agreement governing conditions of employment;

- Promotion of fair labour standards;
- Promotion of participation of employees in decisions affecting their interests in the work place; and
- Securing the just, effective and expeditious resolution of disputes and unfair labour practices.

The fundamental rights of employees as provided for under Part II of the Act are:

- Entitlement to membership of trade unions and workers committees, including being an office bearer;
- Protection against discrimination on grounds of race, tribe, place of origin, political opinion, colour, creed or sex;
- Rights to fair labour standards; and
- Rights to democracy in the work place.

The legal framework still allows the Minister to specify the minimum wage and benefits for any class of employees in any undertaking or industry through a statutory instrument. The Minister also has powers to require employers to grant or negotiate increments on annual income of such minimum amount or percentage as s/he may specify and prohibit the payment of less than such minimum amount or percentage. However for all practical purposes wage negotiations are now conducted through Employment Councils. The Labour Relations Act gives powers to the Minister to direct any certified employer's organisation and any certified trade union or federation of such trade union to form an employment council.

Employment councils are mandated to assist their members in the conclusion of collective bargaining agreements. They should also prevent or settle disputes that have arisen between employers or employees organisations on the one hand and employees, workers committees or trade unions, on the other. The wages agreed through such negotiation are then gazetted by the Minister and become legally binding.

The importance of well designed industrial relations regulations is that they can reduce costs of production by improving labour productivity, encouraging the accumulation of in-firm skills through learning by doing and by providing stable industrial relations. On the other hand, over-zealous legislation aimed at protecting jobs can reduce the flexibility of employers to respond to business cycles through laying off workers. Normally, an increase in the cost of labour results in the substitution of labour for capital, while the reverse occurs if the cost of capital increases. Of course the extent of such substitution depends on the technology of production. A production process using advanced technology tends to have limited substitution possibilities compared to less complex processes.

The price of capital is influenced by a number of factors. These include the efficiency of domestic capital goods producers, the exchange rate, the tariffs applied to imports of such goods and the prevailing rates of interests on loans for purchases of these goods. It has been argued that the net effect of policies taken under a liberal trade regime associated with structural adjustments is that, at least in the short term, the cost of capital generally rises relative to that of labour there by encouraging the adoption of labour intensive methods.[5] The implication of this is that, other things being constant, trade liberalisation policies within the framework of structural adjustment should lead to employment creation. Unfortunately nothing is constant.

5.2 Employment

The table below presents the employment performance of Zimbabwe for the period 1998 to 2004.

Table 7: Employment in Zimbabwe 1998 to 2004

(Thousands of employees; period average)

	1998	1999	2000	2001	2002	2003	2004
Government	240	226	227	241	246	210	210
Non-Government	1,108	1,091	1,007	942	868	802.9	789
Total	**1,348**	**1,317**	**1,234**	**1,183**	**1,114**	**1,012.9**	**998.9**
Total Earnings (Million Zim$)	52,175	73,438	124,368	173,625	326,005	…	…

Source: IMF Statistical Appendix to Zimbabwe Country Report No. 05/359

5 "Employment prospects in Zimbabwe under the Economic Structural Adjustment Programme" ILO and Ministry of Labour, Manpower Planning and Social Welfare, June1992, Harare.

Table 7 above shows that total employment in Zimbabwe has been declining steadily since 1998 right up to 2004. This trend is common to all the productive (as opposed to service) sectors of agriculture, forestry and fisheries, mining and quarrying; and manufacturing sector. In fact, the only sector that witnessed growth in the labour force is finance, insurance and real estate and education to some extent.

The more liberal labour market policy instituted with the structural adjustment programme was partly aimed at encouraging investment and reducing private sector costs of adjustment in so far as labour costs are concerned. The new legislation that was put in place provided for termination of employment, for economic or financial reasons (retrenchments), and for the parties to negotiate and agree on termination packages. The negotiations would be undertaken under the auspices of the works council for that industry, but if no agreement was reached, the matter would be taken up by the Retrenchment Committee in the Ministry of Labour.

It would however be stretching it too far to try and explain the trends in employment exclusively on the basis of the industrial relations policies. The major explanation of trends in employment is overall economic performance as determined by the interaction of several domestic policies; and after 2000, Zimbabwe's relations with the international community.

The Zimbabwean economy is closely integrated with the agricultural sector, and performance in this sector has an effect on the rest of the economy. Unfortunately, the country has been faced with recurring draught and this has adverse effect on the economy in more than one way. First of all, agriculture is a net foreign exchange earner under normal harvest. With poor agricultural performance, the foreign exchange earning capacity of the sector is eroded. This reduces the amount of the much needed foreign exchange that is essential to keep industry going. The impact of this is manifested in shortages of imported inputs and below-full-capacity industrial production. The second point is that droughts necessitate the importation of food. Under these conditions, agriculture, that is supposed to be a net foreign exchange earner begins to compete with other sectors for the limited available foreign exchange.

Zimbabwe has faced fuel and electricity shortages. All petrol and diesel is imported and the country's electricity generating capacity is not adequate to meet national industrial and domestic demand. Hence the country relies on electricity imports from neighbouring countries that are on the same interconnected grid to meet the deficit in its electricity requirements. These are strategic areas that have to be prioritised with regards to foreign exchange.

The last point is that agriculture has strong production linkages with the manufacturing sector – in particular the agro-processing industry. Agriculture provides inputs into these industries and shortages of such inputs may necessitate importation, or operations below capacity. The implication of these three points with regards to output and employment, in the agricultural sector itself and in agro-processing industry and other sectors, is fairly obvious.

Since 2000, the Government of Zimbabwe has implemented the accelerated land reform programme to address the prevailing inequities in land ownership. The land reform programme has been criticised for the manner in which it was undertaken, in that it seriously disrupted agricultural activities. The need for land reform was well recognised and already overdue, after the expiry of the limiting Lancaster House agreement in 1990. The disruption that occurred in agriculture, the isolation of Zimbabwe by the international community and drought, all worked to explain the poor performance of the Zimbabwean economy from year 2000 – in terms of output, employment, inflation, export performance and incidence and levels of poverty.

Fiscal policy is normally called upon to address problems that come about as a result of drought. Central Government importation of food for drought relief has a negative effect on the budget deficit, and this tends to exert inflationary pressures on the economy.

Zimbabwe used to be referred to as the food basket of SADC. Indeed the country still has potential to be self sufficient in food production and contribute to meeting the requirements of other food deficit countries in the region. The country has a lot of irrigation potential. Some of this potential has been used before, but the irrigation schemes require to be rehabilitated, while other areas have notes been tapped at all. The Government of Zimbabwe recognises this and has started efforts to rehabilitate and develop irrigation schemes. The pace of developments in this direction depends on the budget that is already strained. The issue of normalising international relations is important in breaking this vicious circle because it could provide external financial assistance.

6 Social Impacts

This section examines the changes that are likely to occur in Zimbabwe with implementation of macroeconomic policies aimed at deepening SADC regional integration. Reference has already been made to the RISDP and MOU on convergence that point out to the need for macroeconomic stabilisation as a necessary condition for successful regional integration.

The countries within SADC have different national conditions that prevail within them such as natural resources, levels of industrial development, prevailing economic conditions, economic structures and, quite important to Zimbabwe at this point, relations with the international community. Therefore, the implementation of RISDP and in particular, the MOU on convergence by the different SADC countries will affect the countries in different ways.

With regards to macroeconomic convergence, it is worth noting that almost all the SADC countries went through the ESAP. The policies pursued under these programmes were quite similar and hence it is a correct generalisation that SADC countries are already pursuing similar development philosophies and development paradigms. The macroeconomic targets agreed upon, reflect similar thinking; that budget deficits have to be contained and reduced, inflation addressed and minimised and the exchange rate and interest rates stabilised in order to attain sustainable development that benefits the general population. Given that the objective of economic growth and development is to improve the wellbeing of the people, and that macroeconomic policies are used for this purpose, these policies have social impacts.

Social impact assessment relies on economic, social as well as environmental data sets. The data requirements and indicators include income related indicators and non-income indicators such as educational attainment indicators, health related indicators and environmentally related indicators. The more commonly used social development indicators in Zimbabwe are the food and total consumption poverty lines, net primary enrolment ratio, adult literacy, percentage of undernourished children below the age of five, under five and maternal mortality rates, and rural population with access to safe water. Table 8 below presents the social development indicators of Zimbabwe.

Table 8: Social Indicators: Trends 1988 to 2003

	1988	1990	1995	2000	2002	2003
Employment Growth Rate	4.3	-2.2	-1.8	-5.9	-10.2	_
Structural Unemployment %	_	_	_	_	>50	>50
% of Total Population below the FPL	_	_	57[7]	_	69	>69
% of Total Population below the TCPL	_	_	74[7]	_	80	>80
Net Primary Enrolment Ratio	_	_	81.9	_	92.6	_
Primary School Completion Rate %	76	_	76.1	75.1	_	_
Adult Literacy Rate %	_	80	86	88	_	_
% of Undernourished Children under five	_	12.7	16.9	13	_	_
Under Five Mortality Rate (Deaths per 1,000 Live Births)	_	59.9	76.9	102.1	_	_
Maternal Mortality Rate (Deaths per 100,000 Live Births)	_	283	350	695	_	_
Proportion of Births attended to by Skilled Health Personnel (%)	76%	_	87	_	90	_
Rural Population with Access to Safe Water %	_	65[8]	73[9]	75[10]	_	_
Rural Population with Access to Safe Sanitation. %	_	48	56	58	_	_

Note: Generally 1988 and 1990 figures summarise the performance of the 1980s decade
FPL is the level of income at which persons can meet their basic food needs;
TCPL is the level of income at which persons can meet their basic food and non food needs
1 = Provisional, 2 = 1982/92, 3 = 1992/97, 4 = UNAIDS estimate, 5 = CSO end Oct. 2003, 6 = average various sources, 7 = PASS1995, 8 + 1992, 9 = 1997, 10 = 1995 – 99

Source: National Accounts Statistics, Central Statistical Office 2003, Ministry of Finance and Economic Development, 2003

6.1 Food and Consumption Poverty Indicators

The 1995 Zimbabwe Poverty Assessment Study found out that 57% of the Zimbabwean population lived below the Food Poverty Line (FPL), indicating hunger or extreme poverty among Zimbabweans. This proportion was estimated to have increased to 67% by 2002. Similarly general poverty as measured by the Total Consumption Poverty Line (TCPL) increased from 74% to 80% over the same period, according to the same study. These trends are consistent with macroeconomic growth trends and indirect indicators of poverty such as the real GDP growth rate that has continued to be negative since the late 1990s into the 21st century.

Recent trends indicate that poverty is continues to increase in both the rural and urban areas. Poverty is more common and pronounced in households headed by women than those headed by men.

6.2 Child Malnutrition

Child malnutrition is a major problem associated with poverty. The national nutrition survey of June 2002 estimated that 11% of children in urban areas and 26.5% of children in rural areas suffer from malnutrition. Factors that are responsible for this deteriorating situation according to the same study are rapid economic decline, rapid decline in agricultural production, high inflation levels (at that time above 400%)[6], low disposable incomes, high structural unemployment (estimated at over 50%), high prevalence of HIV (estimated at that time to be over 33.7%)[7], and recurrent natural disasters (droughts and floods).

Given that more than 70% of the Zimbabwean population live in the rural areas and rely heavily on rain fed agriculture, and that rainfall patterns are unreliable, household food production and security has remained uncertain and threatened. Poverty in Zimbabwe is worsened by the high levels of inequalities with respect to income distribution. The GINI coefficient is estimated to be 0.57.[8]

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6 The inflation rate currently prevailing have surpassed this figure considerably.
7 This figure has subsequently declined to below 25%.
8 Zimbabwe Human Development Report 2006.

6.3 Infant and Under Five Mortality

Infant mortality increased from 40 to 65 per 1,000 live births, while under five mortality increased from 59 to 102 per 1,000 live births between 1985-89 and 1995-99. The Zimbabwe Demographic Health Survey (ZDHS) 1999 revealed that there is a strong relationship between a mother's level of education and a child's chances of survival. The children of mothers with no education experienced an under five mortality rate of 119 per 1,000, and those of women with higher than secondary school education experienced a mortality rate as low as 21 per 1,000. Better educated women are likely to have better knowledge of nutrition, hygiene and other practices related to health care.

Immunisation programmes against child illness also contribute to the reduction of prenatal, neonatal and child mortality. The Zimbabwe Expanded Programme on Immunisation (ZEPI) that was introduced in 1982 had the objective of increasing coverage of all ZEPI vaccines to 90% by the year 2000. The programme was assessed on the basis of the completion of the Primary Course of Vaccination (PCV) which is one of the measures of quality and effectiveness of such a programme. The ZEPI was so successful that it beat its target and before the end of 1997, PCV coverage had reached 96.6%. However, in spite of the positive outturn of PCV coverage, measles immunisation has been declining from 77% in 1988 to 74% in 1994 and to 71% in 1999.

The decline in immunisations is very much influenced by the problems experienced by the health care delivery system. These problems are manifested by shortages of drugs and staff whose shortage is a result of brain drain among health professionals. Drug shortages are a result of limited allocations to the health sector, with the requirements and/or expectation that cost recovery measures should meet these resource demands. This is quite in line with the policies of reducing budget deficit, but the social impact is obvious. Consequently, Zimbabwe has become a training ground for medical personnel – both doctors and nurses, who leave the country for greener pastures because of low salaries, poor working conditions and frustrations because of lack of drugs and medical equipment.

These are some of the negative effects of policies that are more macroeconomic indicator target led which are less responsive to long term social and human development requirements of the population and nation at large.

On the whole the significant strides that had been made in the early 1980s in the area of social and human development started reversing when structural adjustment programmes were implemented.

6.4 Educational Attainment Indicators

The pattern is different and somewhat mixed up in the area of education. By the mid 1990s, Zimbabwe had achieved near universal primary education. The enrolment ratio has been increasing, reaching 81.9% in 1994 and improving further to 93% by 2002. Literacy levels for 15 to 24 year olds rose from 95% to 98% between 1992 and 1999. But during that same period, the primary school completion rate that was 82.6%, declined to 76.1% by 1995 and further to 75.1% by 2000.

6.5 Access to Safe Water

The proportion of the rural population with access to safe water and sanitation has improved. Access to safe water is very important for the health of the population. Between 1992 and 2000, the proportion of rural population with access to safe water increased from 65% to 75% - a 10 percentage point improvement over a period of 8 years. Access to safe sanitation improved from 48% to 58% between 1990 and 2000. These are positive developments because frequent outbreaks of diarrhoea usually result in many deaths when yet they are largely preventable through access to safe drinking water, sanitation and food hygiene.

6.6 Challenges That May Affect Attainment of SADC Convergence Indicators

6.6.1 HIV/AIDS, Malaria and other Diseases

Zimbabwe is facing severe HIV and AIDS epidemics although it has made considerable progress in addressing the spread of the pandemic. In 2002, the HIV and AIDS prevalence rate in Zimbabwe was one third of the population. This has subsequently declined to less than a quarter of the population due to serious Government efforts in containing the epidemic through educational programmes. UNAIDS estimated that in 2001, the number of children orphaned by AIDS in Zimbabwe was around 780,000 while 70% of patients admitted in hospital wards were due to HIV and AIDS related conditions.

The national target in accordance with the MDG is to reduce HIV prevalence in the medium term (2005) to 24%; and 16% by 2015 (in the 15-24 age group).

The increasing level of poverty, poor and unhygienic living environments and the HI virus have contributed to the resurgence of TB, which thrive on immune systems weakened by chronic infections and by malnutrition. The number of TB cases was estimated to at 9,132 in 1990, increasing to 30,831 cases in 1995 and to a high of 51,918 cases in 2000. The national target is to reduce the incidence of TB from the 399 persons per 100,000 prevailing in 2000, back to the level of 121 per 100,000 people by 2015 – the level that prevailed in 1991.

Clinical malaria has also increased from 65 per 1,000 people in 1990 to over 122 per 1,000 in the year 2000. The declining immunity of the population as a result of HIV and AIDS has made people more vulnerable to malaria-related illness and deaths. The national target is to reduce the incidence of clinical malaria to 60 per 1,000 people by 2015.

Combating HIV and AIDS, malaria and other diseases, is one of the three priority areas identified in the Zimbabwe MDGs. Social challenges that Zimbabwe faces in this regard regards include behavioural change, stigma and discrimination against people living with HIV and AIDS. Macroeconomic challenges in the fight against HIV and AIDS are related to the availability of financial and human resources to facilitate access to essential drugs and also for the care and support of orphans. The shortage of foreign currency is a limiting factor in the procurement and distribution of antiretroviral drugs and essential drugs for the treatment of opportunistic infections.

The health sector is experiencing significant budgetary reductions in real terms. The brain drain phenomenon referred to previously is a result of declining real wages and generally unattractive conditions of service. It is also important to put in place appropriate care and support systems for orphans in order to avoid the pressure of social disintegration that might lead to child labour, children living in the streets and child abuse.

6.6.2 Poverty

The Zimbabwe MDG of eradicating extreme poverty and hunger and improving livelihoods lies at the heart of all development efforts. Unfortunately current economic developments are yielding outcomes that are in the opposite direction. The incidence of poverty has been increasing over the years as already pointed out. The concerns of Government about the wellbeing of the people and the need to ensure that people do not die of hunger means that there has to be a combination of short term consumption support measures and medium to long term measures of addressing poverty. There is need for the creation of an enabling environment for pro-poor economic growth under non-inflationary conditions. There is need to adopt strategies for employment creation with special attention being given to small scale enterprises, reducing dependence on rain fed agriculture and support for the land reform programme.

7 Summary and Conlusions

This study has provided a broad stock taking of the status of the policy framework of Zimbabwe, particularly with respect to target indicators set out in the SADC MOU on macroeconomic convergence. The underlying philosophy with regards to convergence is the need to attain macroeconomic stability for development to occur and improve the livelihoods of the people of SADC. The aspect of improving the welfare of the people is fundamental and should not be lost in the pursuit of achieving the convergence targets.

The economic situation in Zimbabwe has been deteriorating from the end of the last century up to this one. Zimbabwe adopted the structural adjustment programme in 1990 and this programme failed to meet the desired objectives of improving the quality of life. The programme was subsequently officially abandoned. But the current policies being pursued are basically entrenched in the same philosophical approaches as those under ESAP. The big difference is that in 2000, Zimbabwe embarked on the fast track land reform programme that saw the eviction of white farmers without notice and in many cases in a violent way. This strained Zimbabwe's relationship with the developed Western countries, particularly UK and USA with the resultant cutting of aid to Zimbabwe. The Government of Zimbabwe responded by taking a firm stance against what it saw as the "revival of colonialism" that was aimed at reversing the land reform programme. Zimbabwe took a Pan-African stance that was aimed at fighting the exploitation of African and other developing countries by the developed Western countries. But after all is said and done, the macroeconomic policies followed are within the neo-liberal framework that was the basis of structural adjustment, with limited reversals aimed at reducing the negative impact of such policies.

The income performance indicators of Zimbabwe – GDP, FPL and CPL – have been on the decline indicating poor economic performance. Zimbabwe is experiencing hyper-inflation that is not showing any signs of stability and this needs to be addressed urgently. The inflation indicator is not only off target, but moving in the wrong direction. The same can be said of the above income indicators, the only difference is that of magnitude.

The budget deficit is on target but this has not helped in addressing the inflation problem. In fact the causes of inflation in Zimbabwe are so multi-dimensional that the normally assumed relationship between budget deficit and inflation has been violated.

In the area of trade, the current account deficit target for 2008 has already been achieved, but the external reserve/import cover target is way off. Import cover is 0.1 against the target of 3 months by 2008. There is suppressed demand for imports which are needed in order to vitalise the economy.

The exchange rate remains overvalued. The Reserve Bank of Zimbabwe considered a number of options for exchange rate management and decided to use the controlled auction system. Under this system, exporters are allowed to retain a certain proportion of their export earnings and surrender the balance to the Reserve Bank for auctioning. The country is experiencing serious foreign currency shortages that have manifested themselves in several ways including severe shortages of fuel and disruptions in electricity supplies. In March 2006, the official exchange rate, i.e. the inter-bank rate, was pegged at USD 1 to Zim$ 99,000 while the parallel market rate was around USD 1 to Zim$ 200,000 The parallel market rate has since declined further.

The experience of Zimbabwe requires that caution be exercised when it comes to macroeconomic convergence target indicators with respect to the setting of the targets (which has already been done) and more important, the interpretation of indicator performance among SADC countries. There is also the issue of a mix in target performance. A country such as Zimbabwe might perform well in some indicators and do badly in others. It is necessary to understand the underlying factors because in most cases, performance indicators are a reflection or outcome of the fundamentals and under-currencies within an economy.

The objectives of ensuring equity and eradicating poverty stated in the SADC treaty and the RISDP are noble objectives that should be pursued vigorously. But if target indicators of convergence focussing on macroeconomic stability take the centre stage, preoccupation with these might end up being the end rather than the means to the end. This point was clearly expressed by the Minister of Public Service, Labour and Social Welfare in Zimbabwe, Nicholas Goche, when he said:

"The uniqueness of public service arrangements worldwide makes it difficult to apply the outcomes of consultative processes wholesomely. It is acknowledged that the fiscal determination of percentage of Gross Domestic Product (GDO) militates against consultations on conditions of service in the public sector."[9]

This is simply one illustration that shows how budget deficit targets can undermine legitimate and desirable labour market policies put in place to protect the welfare of workers (through collective bargaining).

The extent to which SADC regional integration and the policy targets set and agreed upon, will achieve the noble objectives stated above, will to a large extent be determined by the underlying approaches especially with regards to the region's relationship with the international community within the context of globalisation. It is argued that:

"The new SADC approach takes globalisation as given, seeing its role as one of compliance and facilitation. The original approach of viewing regionalisation as a collective defence instrument to protect local economies and industries from wider competition has been replaced by an open regionalisation that exposes the individual countries and regions to the vagaries of the world economy where the risk of contagion is very high."[10]

What this points at is that, collective SADC policies should take into account the nature of economic relationships that prevail or should prevail between these countries and developed countries, if they are to achieve their fundamental and noble objectives.

[9] Quoted in The Business Herald, 17 October 2005: 4.

[10] G. Kanyenze, "Macroeconomic Framework and Finance in Southern Africa", Paper prepared for the *Alternatives to neo-liberalism in Southern Africa – ANSA* - Project.

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Deepening Integration in SADC

Zimbabwe – Missing SADC Macroeconomic Target

Part: 2

Perception of Business and Non-State Actors in Zimbabwe

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Appendix 1: Tables for Business Survey

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1 Introduction

This survey is part of SADC's country wide studies on Deepening Regional Integration in SADC, that are aimed at informing the policy making process and various partners in this regards, in the area of regional integration. The country studies have two components. The first component is a survey of perceptions of business and Non-State Actors (NSA) on regional integration. The second component examines the national macroeconomic policies and their implications on regional integration.

It is expected that the survey will provide the Southern African Development Community (SADC) Secretariat, policy-makers in Government, chambers of commerce and industry, and other development partners, valuable information that can be used as a basis for determining the most appropriate action programme for implementing regional integration measures in the region.

The questionnaires used to investigate the perceptions of the businesses and NSAs, consists of three broad sections. The first section is aimed at providing the profile of the respondents. The second section is aimed at evaluating the perceived impact of regional integration on the economy in general and on the different types of business at the enterprise level. The third and final section evaluates the extent of policy debates on regional integration, and involvement of businesses and NSAs in this debate.

The rest of this report is structured as follows: Section 2 below provides the methodology used in conducting the survey. This is followed by Section 3, which presents the profiles of the respondents. Section 4 and 5 present the findings on the perceptions of business and NSAs on regional integration and the business climate within SADC and beyond. Section 6 then addresses the extent of national debate on regional integration in Zimbabwe, before concluding remarks in Section 7.

2 Methodology

The two questionnaires used, one for business and the other for NSA, were designed by the Namibian Economic Policy Research Unit (NEPRU). The terms of reference required a sample of at least 30 businesses and 10 NSA. The small size of the sample brought about some limitations in data analysis, particularly when it came to disaggregating perceptions of business and NSA by their profiles.

In sampling the companies to be interviewed, we used the business directories of the Confederation of Zimbabwe Industries (CZI) and the Zimbabwe National Chamber of Commerce (ZNCC). On that basis, a random sample of 60 companies was compiled. These were contacted and questionnaires distributed to them physically and in some cases by e-mail. A trained research assistant made follow ups to explain aspects of the questionnaire that needed clarification. Some of the selected companies did not respond. Others did not cooperate, while others indicated that the questionnaire was not relevant to them, given their type of operations. A total of 38 responses was received.

The sample frame of the NSA was drawn from the Poverty Reduction Forum directory of national stakeholders. This list is quite comprehensive and includes business associations, the labour movement, employers' confederations professional associations, Non-Governmental Organisations (NGOs), human rights organisations, church organisations and others. We selected those NSA whose focus was on economic and social issues. 20 NSA were randomly selected, and questionnaires were distributed to them. The rest of the process was similar to the business perceptions survey and 12 responses were received.

3 Characteristics of Respondents

3.1 Business

30 out of the 38 companies (79%) interviewed were private companies. 4 were parastatals and two were private-public partnerships. The remaining 2, classified as others were actually sole proprietorships and as such they also qualify to be classified as private companies (Table B1). In terms of sectoral distribution shown on (Table B2), slightly more than half of the responding companies (20) were involved in manufacturing. Of these, 6 were involved in wholesale and retail trade in addition to manufacturing. Four respondents were involved exclusively in wholesale and retail trade. The other respondents were in transport and communication (3), mining (2), financial services (2) tourism (1) and what was classified as others (5). The last category involved companies in printing, publishing and design, security services, metal fabrication and watch repairs.

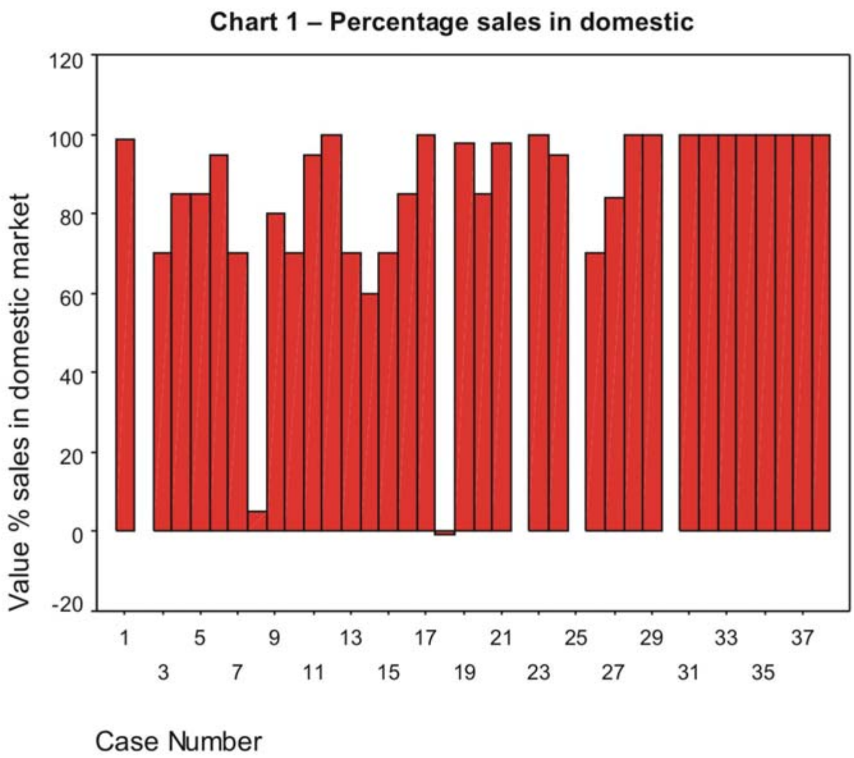
In Zimbabwe, the size of enterprises is defined in terms of employment and turnover, in addition to other attributes. For the purposes of this study, and given the hyper-inflation prevailing in the country, it was found to be more appropriate to use the employment variable for purposes of classifying enterprises by size. Large-scale enterprises are defined as those employing more than 75 people in the case of the manufacturing sector, and those employing more than 50 people in all other sectors. Medium-scale enterprises are those employing 50 to 75 in the manufacturing sector, and 30 to 50 for other sectors. Small-scale enterprises are those employing 5 but less than 50 for manufacturing and less than 30 for the rest of the economy. Any enterprise employing less than 5 people is classified as a micro enterprise. 71% of the sample consisted of large companies employing more than one hundred employees. The remaining 29% were micro, small and medium enterprises (Table B3). All the parastatals and public-private partnerships within the sample were large-scale companies.

Table B4 shows that 82% of the respondents had been in operation for more than 10 years. 5 (13%) had been in operation for between 2 and 5 years. There was only one response from a company that had operated for less than 2 years.

Given the fact that there was a higher rate of response from large scale companies, it was not surprising that as much as 74% of the respondents had annual turnover in excess of USD 100,000 (Table B5). Most of the respondents indicated that they were more involved in trade with SADC countries than those outside the region. 75% of the respondents involved in exports, have a SADC country as their number one export destination and the countries mentioned are South Africa, Zambia, Botswana and Malawi in descending order (Table B7). 95% cited a SADC country as their number 2 country or export destination. Countries mentioned are Malawi, Zambia, South Africa followed by Botswana, Mauritius and Kenya.

The chart below shows that very few of the responding companies rely heavily on export markets. The main market for most of them is the domestic market. The domestic market for every four out of five companies constitute up to 80% of total sales. This suggests potential for diversification into export markets if opportunities present themselves.

Chart 1 - Percentage Sales in Domestic Markets



South Africa is the major source of competition, 65% of the companies that responded indicated that they faced some competition from this country. 19% indicated that they faced strong competition from South Africa and 29% faced moderate competition. It is interesting to note that all the companies facing some competition from South Africa are not against regional integration within SADC. The next major source of competition is Asia. 42% of the responding companies faced some competition from this region. 24% actually indicated that they faced strong competition from Asia, while 16% indicated that they faced weak competition. Asia is followed by Botswana, Lesotho, Namibia and Swaziland (BLNS), with almost one fifth of the respondents indicated that they faced competition from this group of countries. (see Table B8).

3.2 Non-State Actors

Half of the NSA in the sample are civil society organisations, while 33% are industry associations (see table N1). The remaining 2 are organised labour and organised employer organisations. 75% have been in operation for more than 10 years while the remaining 25% have been in operation for 6 to 10 years (see Table N2). Only one third of the respondents are members of a SADC National Committee while the other two thirds are not. On the other hand, 83% of these NSA are members of a regional umbrella organisation and only 17% are not. (Table N3)

All the NSA interviewed were involved at one point or another, in the design of domestic policies, while 75% of them participated in the design of SADC policies. Only 25% were never involved in the design of SADC policies. The majority of the NSA respondents are of the opinion that regional integration will strengthen the involvement of NSA in policy design. 58% are of the opinion that it will strongly strengthen their involvement, while 33% believe that the impact will be slight but positive, this figure make a total of 92% of respondents who feel that regional integration will strengthen their involvement in policy design. Only one NSA out of the 12 expected no changes. None believed that regional integration will weaken the involvement of NSA in policy design (Tables N13 to N15). It is interesting to note, however, that when it comes to assessing the perceived impact of regional integration on the policy involvement of particular respondents - as opposed to the overall assessment, 8% believed that regional integration would slightly weaken their involvement. 83% were of the opinion that it would strengthen their involvement while 8% expected no changes.

In Zimbabwe, there has been a shift in the policy making process. Previously, there was very little consultation. The formation of the National Consultative Economic Forum (NECF) created a broader framework for the involvement of various stakeholders in the policymaking process.[1] The results of the survey indicate that this framework has been effective. It should be pointed out, however, that involvement in policy design does not necessarily guarantee adoption of the preferred policies. Similarly, it is also possible that policies agreed upon in forums such as this one, can be reversed by decisions made outside the forums. And finally, policies agreed upon in such forums and implemented, can have their potential positive impact counteracted by other policies that may be made outside the forum.

[1] NECF is a stakeholder driven and owned organisation which provides a broad based participation platform for the formulation and implementation of national policies through dialogue and consensus building among and between Government, private sector, labour, civil society and academia.

4 Perceptions on Regional Integration Within SADC

This section examines the perceptions of both business and NSA, on regional integration using their responses to the questionnaires. The major areas covered are overall macroeconomic impact of regional integration, assessment of the different types of barriers to enterprises, firm level impact of regional integration, and views on deepening regional integration.

4.1 Perceptions on Macroeconomic Impact on Regional Integration

4.1.1 Business

On the basis of the responses received, the business community is in favour of regional integration. In fact all the responding companies were in favour of regional integration within SADC and only one among these was not in favour of regional integration in general. Most companies were of the opinion that there were too many barriers to trade within the SADC region that impeded trade and the effective exploitation of a larger market. Some companies complained that there was too much talk about regional integration within SADC and limited action on the ground.

Table B19 shows business perceptions on the macroeconomic impact of SADC regional integration. 92% of the respondents were of the opinion that regional integration will benefit the economy in general. This is despite the fact that they believed that regional integration will increase competition on the domestic market. Respondents believed that regional integration would ease production bottlenecks that they face in the form of availability of inputs and spare parts for equipment imported from the region. With the easing of such bottlenecks, regional integration will result in increased efficiency and competitiveness of the domestic industry. 97% of the respondents felt this way. 76% of the companies also felt that regional integration would reduce the prices of inputs, thus improving competitiveness. In addition, benefits to the economy will further accrue from increased investment and export opportunities that will be created as a result of regional integration.

92% and 89% of the respondents believed that RI would create new investment and export opportunities respectively and 82% were of the opinion that regional integration would result in a reduction of prices of consumer goods. Further questions on administration revealed that the decline in prices of consumer goods was a long term expectation in view of the hyper-inflationary situation in the country. What was more likely to happen in the short and medium term was a reduction in the rate of inflation.

74% of the responding companies were of the opinion that regional integration will have positive impact on their company's turnover. More (84%) believed that regional integration will have positive impact on other domestic producers.

With regards to the impact of regional integration on the labour market, about two thirds of the respondents were of the opinion that regional integration would reduce the unemployment rate in Zimbabwe, while one quarter disagreed with this position, with the rest were not sure of the effect of the impact. Less than a third believed that regional integration would lower the cost of labour. The majority (58%) disagreed and did not believe that regional integration would result in lower wages.

Less than half (43%) believed that there will be an influx of immigrants to Zimbabwe as a result of regional integration. Those that held this view expected immigrants to come from countries such as Mozambique and Malawi that have in the past supplied Zimbabwe with cheap unskilled labour. There were also expectations of a reversal in the brain drain that the country is facing. However, this was the view of the minority, as pointed out ealier.

These views of business on the impact of SADC regional integration on the economy were deemed to be valid if the regional integration was within the Common Market for East and Southern Africa (COMESA) and the East African Community (EAC). 63% of the respondents expressed that their responses would be the same if the questions asked related to COMESA or EAC.

On the human rights situation, more than half of the respondents believed that regional integration would enhance these. 28% disagreed and 16% were not sure of the outcome. Only 22% of the respondents were of the opinion that regional integration would reduce the political sovereignty of Zimbabwe. The majority (66%) disagreed, while the remaining 10% did not know the outcome. That result is not surprising given the openly expressed position of the Government of Zimbabwe on the matter of national sovereignty - that Zimbabwe will never compromise in defending its national sovereignty.

4.1.2 Non-State Actors

The perceptions of NSA on the macroeconomic impact of SADC regional integration are summarised in Table N7. Like in the case of the business community, there is a general consensus among NSA that regional integration will benefit the economy as a whole. Only one out of the twelve respondents disagreed with this position. All NSA respondents were of the opinion that regional integration will create new export and investment opportunities. And like business, they also recognised that regional integration will increase competition on the domestic market. 75% believed that the increased competition will improve efficiency of domestic production to remain competitive, while the remaining 25% felt otherwise. The majority of the NSA were of the opinion that regional integration will reduce prices of both inputs and consumer goods.

Coming to the labour market, the position of the NSA is quite similar to that of business with respect to its impact on employment. However their positions differ when it comes to the expected impact on the cost of labour. The majority of the NSA, just like business, believed that regional integration would reduce the unemployment rate although the percentage (58%) is lower than that of business, while one quarter disagreed with this position. While less than a third of the business respondents believed that regional integration would lower the cost of labour, 58% of the responding NSA believed that regional integration would lower the cost of labour. Like in the case of business, less than half (one third) believed that RI will result in an influx of labour.

58% believed that regional integration will have a positive impact on domestic companies' turnover. 33% disagreed, while one respondent was not sure about the outcome.

On the aspect of human rights, all NSA except one were of the opinion that regional integration will enhance the human rights situation in Zimbabwe. Three quarters of them believed that regional integration could not undermine the political sovereignty of the country while one quarter believed that it would reduce the country's sovereignty.

4.2 Perceived Impact of Regional Integration on Domestic Businesses

4.2.1 Business

On the whole, the companies interviewed are optimistic that deeper regional integration will have positive effects on their business operations (see Tables B15 and B16). More than 70% of the respondents predict that with deeper regional integration, they will increase domestic production, employ more workers, venture into new business activities and seek joint ventures with companies in other SADC countries. Again more than 70% indicated that with deeper regional integration, they would import and export more to other SADC countries and increase their access to cheaper inputs.

The above responses are partly a reflection of the constraints that Zimbabwe industries are facing and the hope that regional integration will contribute towards relieving these constraints. Zimbabwe faces a serious problem of foreign currency shortages and a depreciating exchange rate. Many companies are operating at well below full capacity - some as low as 40%. Some are facing viability threats due to unavailability of imported inputs and in some cases fail to meet orders due to these constraints. The high inflation rate, coupled with relatively stagnant wages, is eroding the domestic demand base. Companies believe that deeper regional integration will create new opportunities that will contribute towards resolving problems associated with foreign currency shortages. Joint ventures with strategic partners in SADC are expected to resolve the problems of input shortages, provide new opportunities for business expansion and diversification and enable easier market penetration within the region and overcome the constraints caused by a shrinking domestic market.

Only 13% of the responding companies expected deeper regional integration to have negative effects on their operations, resulting in them retrenching employees. All these companies are in the manufacturing sector. A close examination of this sector shows that, 25% of the responding companies were of the view that regional integration will force them to retrench employees and 20% actually expected to close down. Therefore in relative terms, the manufacturing sector foresees more challenges with regional integration compared to other sectors. There was only one company in wholesale and trail trade that expected to close down operations as a result of deeper regional integration.

All the 5 companies that expected to close down because of deeper regional integration were large companies with annual turnover of now than USD 100,000 and with more than 100 employees. All of these with the exception of one have been in operation for more than 10 years.

Follow up questions during interviews revealed concerns by industry about the need to address current constraints in order to improve production efficiency that is required in a more competitive environment. Regional integration was viewed to come with opportunities and threats (challenges). To minimise the negative effects or the threats and to take advantages of the opportunities companies interviewed suggested that the national policy environment need to create a business climate that is conducive.

Companies were asked to quantify the expected impact of deeper regional integration. The responses were quite consistent with the qualitative responses. On average, employment was expected to increase by 13%, production by 31% and investment by 21%[2]. Exports were expected to increase by a greater margin than imports at 44% compared to 33%. The expected decline in prices of imports was just 3%. The high expected changes in the above variables reflect the constraints that industry is facing in Zimbabwe and the high

[2] These results exclude the extreme case of one microenterprise that expected employment and production to increase by 1000% each and investment by 400%.

expectations and optimism attached to regional integration in addressing these constraints.

It was difficult for companies to assess annual gains and losses in Dollar terms. Those that attempted to do so made it clear that these were more of guest-mates. Another problem of making projections and estimates in Zimbabwe is the disparity between the official exchange rate and the parallel market rate and the rapid changes in these both in absolute terms and in relation to each other. Given these problems, and the relatively more reliable estimated impacts given above, it was decided that there was no point in adding to the analysis the quantity in Dollar terms of the gains and losses from improved market access and lower import costs that are a result of increased competition. In fact the inaccuracies may even distort the picture.

4.2.2 Non-State Actors

The views of NSA on the impact of regional integration on business in Zimbabwe were similar to those of business (Table N12). The expected impact on business was positive. 75% of NSA expected regional integration to result in higher employment, increased production and increased investment abroad. An even higher proportion (83%) expected domestic companies to seek joint ventures with companies in other SADC countries as well as entering into new business activities. Both exports and imports were expected to increase. The NSA quantified their expectations of changes in employment, production, investment, imports and exports and all these fell in the range of 36% to 42%. The average price of inputs was expected to fall by 12%.

All the NSA interviewed were involved in the design of domestic policies. 75% of them were involved in the design of SADC policies. NSA believed that regional integration within SADC will strengthen their involvement in policy making in Zimbabwe.

4.3 Rating of Trade Barriers

4.3.1 Business

Out of all the 38 companies that responded to the questionnaire, 10 were not involved in trade with any SADC countries. Of the remaining 28 that trade with other SADC countries, 10 reported that they did not experience barriers when exporting to or importing from SADC countries while the other 18 did - representing two thirds of companies involved in SADC trade.

The analysis below focuses on those companies experiencing barriers in trade within SADC (Tables B10 to B13). It is interesting to note that those companies experiencing trade barriers found most of the barriers listed in the questionnaire at least relevant. More than 80% of the companies reported that the following barriers were either relevant or very relevant: customs tariffs currently employed, payment of import and taxes in cash, rules of origin, requirements for import/export permits, time consuming customs procedures, excessive paper work and bureaucracy, lack of information about foreign markets, visa requirements for travelling abroad, exchange rate uncertainty, poor regional infrastructure, high regional communication costs, weak regional transport infrastructure, and high transport costs. A corrupt official was mentioned by 78% of the companies as relevant or very relevant, but with the very relevant response carrying even greater weight.

With regards to rating of the above, all 18 companies cited exchange rate uncertainty and high transport costs as a barrier to trade. Visa requirements were mentioned by all except one. Customs tariffs, Rules of Origin and time consuming customs procedures were mentioned by all except two companies as relevant or very relevant barriers.

The only barriers that were mentioned by 50% companies or less were SPS regulations, lack of transparency of rules and regulations abroad, risk of non payment and lack of availability of export insurance to cover payment risk of exports.

For the sake of emphasis and comparison later, we re-list the most widely cited barriers to trade.

1. Exchange rate uncertainty;
2. High transport costs;
3. Visa requirements;
4. Customs tariffs currently employed;
5. Rules of Origin; and
6. Time consuming customs procedures.

Companies were also asked to identify the three most relevant barriers they face in foreign trade. Because of the relatively few responses accompanied by a large number of barriers to choose from, the results were quite spread. This, in a way indicates that companies are affected to differing degrees by the different barriers.

The most relevant barriers to trade were compared in this way; we gave weights of 3, 2 and 1 to the number of responses associated with the first, second and third most relevant barriers identified respectively and summed the results.

B1: Type of Business

Type of barrier	Most relevant	2nd Most relevant	3rd Most relevant	Points
Customs tariffs	5	3	1	22
Export/import licences and permits	2	0	0	6
Import & export duties to be paid in cash	0	5	5	15
Time consuming customs procedures	2	2	1	11
Visa requirements	1	0	2	5
Exchange rate uncertainty	2	0	1	9
Weak transport infrastructure	0	0	2	2
High transport costs	1	0	3	8

Using this approach, the barriers ranked is as follows:

1. Customs tariffs currently employed;
2. Import duties and taxes that have to be paid in cash;
3. Time consuming customs procedures;
4. Exchange rate uncertainty;
5. High transport costs;
6. Export/Import licences.

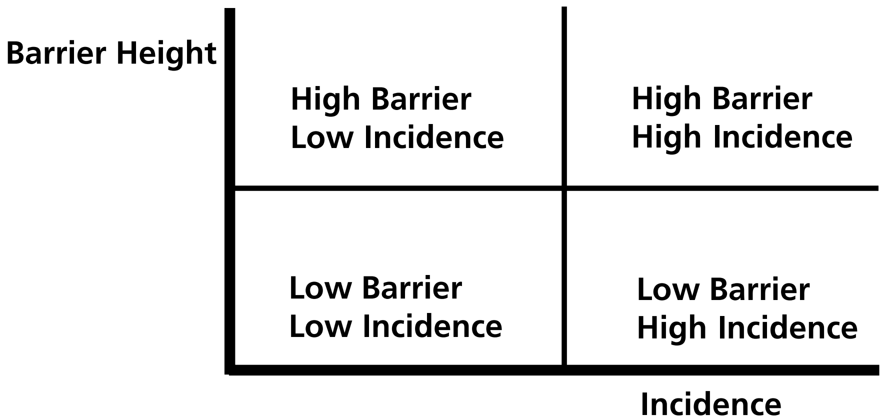
It is interesting to bring together and compare these results with the earlier ones where companies simply indicated whether barriers were very relevant, relevant or not relevant, without identifying the most relevant barriers.

The first set of results indicates incidence or spread of the barrier among companies. In other words the results indicate barriers that are most commonly faced by companies. The second set of results indicates the intensity or the relative height of the barriers. The ranking reflects those barriers that pose the biggest challenges to companies - that is, those that are most difficult to overcome or that are costly to resolve.

Combining the two results provides a basis for developing a framework or methodology for classifying the barriers and identifying priorities in respect of regional integration measures aimed at addressing these barriers to trade.

Four classifications of barriers can be made and these are: High Barriers with Low Incidence (HB/LI), High Barriers with High Incidence (HB/HI), Low Barriers with High Incidence (LB/HI) and Low Barriers with Low Incidence (LB/LI). This situation is depicted in the diagram below.

Figure 1: Classification of Trade Barriers



If we take the barriers listed above, they are all important in either height, incidence or both. Those that are not listed above are less important in both height and incidence and hence will fall in the quadrant of Low-Barrier, Low-Incidence (LB/LI). These barriers have less negative impact on those companies and/or industries that they affect and are not so as spread among companies or industries as to those listed above. In terms of prioritisation and implementation of regional integration measures, addressing these barriers requires the least priority. This is in respect to the expected returns that are reflected by benefits accruing as a result of inputs made in addressing these barriers.

The barriers listed above are classified on the basis of which set of results they appear. If they appear on one set of results, then they are high on that one and are low on the one that they do not appear. If they appear on both, logically they are high on both. The classification that comes out is as follows:

- **High Barriers, High Incidence**
  - Customs tariffs currently employed
  - High transport costs
  - Exchange rate uncertainty
  - Time consuming customs procedures

- **High Barriers, Low Incidence**
  - Import duties to be paid in cash
  - Export / Import licences

- **Low Barriers, High Incidence**
  - Visa requirements
  - Rules of Origin

- **Low Barriers, Low Incidence**
  - The rest of the barriers

The Zimbabwe survey responses suggest that customs tariffs currently employed, high transport costs, exchange rate uncertainty and time consuming customs procedures present themselves as the most severe barriers to regional trade both in terms of intensity and spread in the country. These barriers need to be given priority so as to relieve companies of the stress they cause and enable the country to quickly benefit from increased regional trade.

The next category of trade barriers (HB/LI) has great negative impact on enterprises. However, the barriers are confined to relatively fewer sectors or companies. A possible explanation is that some companies may have developed strategies to circumvent or overcome these barriers. There is reason to believe that a characteristic of this group of barriers is that there is room at the enterprise level to acquire capacity to address these barriers and minimise their negative impact as is reflected by the fact that most companies have managed to overcome them.

The responses from the Zimbabwe survey indicate that the requirement to have import duties and taxes paid in cash and export/ import licences, fall in this category. The low rate of incidence of this (high) barrier suggests that companies must have developed ways of overcoming it.

Low Barriers with High Incidence LB/HI have a relatively low negative impact on individual enterprises, but are wide spread through out the whole economy. Solutions to such barriers are more external to the enterprises and take a national and regional character. In the case of Zimbabwe, these barriers include visa requirements for travel abroad and Rules of Origin.

4.3.2 Non-State Actors

The rating of trade barriers by Non-State Actors is along the same line as that of business (Tables N8 to N11). All of the listed trade barriers were rated as relevant or very relevant by at least 75% (9 out of 12) of the responding NSA, except risk of non-payment of customers abroad and weak law enforcement in export destinations. These two barriers were rated as relevant or very relevant by two thirds of the respondents. What these responses clearly indicate is that on the whole NSA believe that the listed trade barriers are relevant.

When it comes to rating, customs tariffs, and weak regional infrastructure were rated as relevant or very relevant by all the respondents. These two were followed by import duties and taxes that have to be paid in cash, export/import licence and permit requirements, time consuming customs procedures, bureaucracy, lack of market information, visa requirements and poor regional communication infrastructure. These were each mentioned by all except one respondent (92%) as relevant or very relevant.

Some interesting observations emerge when the responses are broken down to "very relevant" and "relevant". The ranking becomes as follows: exchange rate uncertainty received the highest rating as very relevant at 75%. This was followed by export/import licenses, visa requirements for travelling abroad at 58% and customs tariffs, rules of origin, time consuming customs procedures, and poor regional communication infrastructure.

It is not surprising that in Zimbabwe, exchange rate uncertainty is viewed by both business and non state actors as a huge barrier to trade and business in general. The Zimbabwean Dollar has been depreciating at a high rate. The foreign exchange policy has been changing and these changes are hard to predict. There is a wide disparity between the official exchange rate and the parallel market rate. The foreign exchange allocation system has been changing in response to various pressures and in response to unexpected outcomes of various exchange rate regulations.[3]

It is interesting to note that customs and tariffs that were cited as a high barrier to trade, with high incidence. This is important given the fact that the SADC Trade Protocol that came into effect in September 2000 aims at achieving a zero tariff rate for 85% of all intra SADC trade by 2008, with the remaining 15% being zero rated by 2012. Zimbabwe has been implementing its tariff reduction schedule to meet these targets and, in that regard, this problem is being addressed and should not be of such serious concern. In fact at the SADC level discussions are now focussed more on non-tariff barriers such as SPS regulations and quarters imposed by SACU on other countries.

The concerns over customs tariffs reflect that, in some cases, tariff reduction schedules are not being implemented on time. In other cases new tariffs are announced, but implementation of these at boarder posts is lagged. This causes serious problems at boarder posts and hence customs tariffs come to be perceived as a high barrier by many companies. Quantitative restrictions are also seen as a major source of concern at the policy level. However, their low-rating as a trade barrier

[3] The paper "Deepening Regional Integration in SADC: Macroeconomic Policies and their Impact - Zimbabwe Country Study" by the same author, provides details on this issue.

reflect the prevailing situation in Zimbabwe. As already pointed out, many companies are operating below full capacity and in some cases fail to meet orders. What that means is that under current conditions, quantitative restrictions are not a binding constraint, and therefore are not "felt" by many companies. They would certainly become a more serious issue as companies increase production and seek greater export opportunities.

5 Perceived Business Climate in SADC and Beyond

The objective of encouraging trade within SADC and beyond is to stimulate economic growth and development within the region and improve the standards of living within member countries. The Zimbabwe survey found out that both business and NSA expected regional integration to result in increased domestic production and to open up new investment and export opportunities and possibilities for joint ventures with companies in other SADC countries.

The extent to which these possible outcomes become a reality depends to a significant extent, on the actual and perceived business climate prevailing within the region and beyond.

Companies were asked to rate the business climate in the domestic market and other markets within and outside SADC and the results are presented in Table B14. The South African business climate was rated the most favourable with 65.8% of the responding companies indicating that it was either favourable or very favourable. Only 13% of the responding companies found the South African business climate unfavourable.

After South Africa, the next most conducive business climate according to the responses is the BLNS countries. Half of the respondents rated the business climate in this market as favourable or very favourable. 28.9% were not knowledgeable about the business climate in the BLNS countries. The figure is almost the same for SADC countries. In fact the dearth of knowledge about external markets is obvious in this survey.

Almost 60% of the responding companies did not have knowledge about the business climate in African countries outside the SADC region. The figure for the rest of the world is 63% while that of the European Union (EU), United States of America (USA) and Asia is just over 50%. Zimbabwe recently adopted the "Look East" Policy with the view of increasing economic relations with Asian countries. This was in response to the sour political and economic relations that have been prevailing between Zimbabwe and the developed Western countries. But as much as policy has shifted in that direction, the business community remains with limited knowledge about the business climate in that part of the world.

The wholesale and retail trade sector is leading in its lack of knowledge about other markets, beyond the domestic one. 3 out of 4 firms in this sector (well above the average) do not know the business climate in the BLNS countries, non-BLNS SADC countries excluding South Africa, ROA, EU and ROW. Countries that the wholesale and retail sector is familiar with in terms of the business climate are South Africa and Asia because three quarters of the respondents were able to rate these markets. This outcome suggests that with regards to the Look East Policy, it is the East that has successfully penetrated the Zimbabwean market, and very little if anything of the reverse has occurred.

The manufacturing sector performs well above average in terms of knowledge of the business climate in external markets within the SADC region. However, beyond this, it gravitates towards the average.

Two thirds of the respondents in the transport sector were familiar with the SADC region in so far as business climate is concerned. Only one third, slightly below average, has knowledge about the business climate in all other markets.

Beside South Africa and the BLNS countries, the next market viewed by the Zimbabwe business community as having a favourable business climate, is the remaining SADC countries. 37% of the respondents rated this market as having at least a favourable business climate. This was followed by Asia (34%) and EU (29%).

The Zimbabwe business climate was rated second to last, together with USA and ROW. Not a single response rated the domestic business climate as very favourable. Only 24% rated the domestic business climate as favourable compared with 71% that rated it as unsatisfactory or less favourable. This outcome is not very surprising given the foreign exchange problems already alluded to and the hyper-inflation prevailing in the country. The rate of inflation in Zimbabwe has been increasing over the last year and is now beyond the 1,000% mark.

The rest of Africa was viewed not to be good for doing business in or with. Only 5% of responding companies were of the opinion that this market was favourable or very favourable.

6 National Debate on Regional Integration

This section examines the extent to which the business community and NSA are involved in national debate on regional integration on the basis of the responses to the questionnaire. The responses of business on this issue are summarised in Tables B17 and B18 and those of NSA in Tables N16 to N20.

6.1 Business

On the whole, there is general consensus among the business respondents that regional integration is a topic that is debated by the public in Zimbabwe. 70% of the respondents are of this opinion. However, of this 70% two thirds think that the debate is not so prominent and only one third think that there is healthy debate on the subject.

According to the business responses, there is more debate on SADC regional integration, than regional integration in general. This point remains equally valid when the debate on integration is compared to discussions on COMESA and the EAC. In the case of SADC, 30% of the responses were of the view that there is a lot of debate on SADC regional integration and 50% were of the opinion that there is some debate, but it is not so prominent. Business responses indicate that there is least debate on regional integration within the framework of EAC. Only 3% are of the opinion that there is healthy debate on RI within EAC.

The majority of the businesses that responded to the questionnaire had never attended workshops or seminars on regional integration. Only one quarter attended workshops/seminars on regional integration, fewer than one quarter had attended meetings on regional integration specific to SADC, COMESA and the EAC in that declining order. Between 40% and 50% indicated that they had not attended such workshops for the different regional groupings because such workshops were not offered.

6.2 Non-State Actors

Like business, NSA were of the opinion that in Zimbabwe, there is public debate on regional integration in general, but that the debate is not prominent. Only one quarter of the respondents had the view that public debate on regional integration in general was prominent, compared to two thirds that felt otherwise. The responses indicate that, debate on regional integration within SADC is just slightly more prominent than that on regional integration in general with one third (compared to one quarter) holding that view. Public debate within COMESA is less prominent than within SADC and within EAC it is even less prominent.

Most of the NSA that responded to the questionnaire have had some discussions on regional integration within their organisations. Discussions on regional integration within SADC are more popular among NSA compared to discussions on COMESA and EAC. Three quarters of the NSA have had some discussions on SADC compared to half that have discussed COMESA and 42% that have discussed EAC. However for most of the NSA, such discussions have not been regular.

Most of the NSA stated that they have not organised workshops/ seminars on regional integration. Only 2 NSA out of the 12 interviewed stated that they have occasionally organised workshops on regional integration in general and specific to SADC, COMESA and EAC. These NSA are a labour organisation and a civil society organisation. Most of the NSA (two thirds) have never done anything to raise the issue of regional integration in general, within SADC and within COMESA. In the case of EAC, the percentage is even higher, 83%. In general, NSA have not been pro-active in promoting debate on regional integration. They have been relatively more active in participating in initiatives taken by others as reflected by a relatively greater proportion of those that attended seminars on regional integration.

Participation of NSA in SADC National Committee meetings is not impressive. Only one quarter of the responding NSA (4 out of 12) has been invited to and attended SADC National Committee meetings, 3 of them regularly and one occasionally. All the NSA responding to the questionnaire were of the view that it was necessary to increase the capacity of NSA to participate in committees on regional issues.

7 Business and NSA Views on the Way Forward

Both business and Non-State Actors strongly support regional integration initiatives particularly within the context of SADC (Tables B19 and B20 for business and N22 for NSA). This is quite consistent with their perceptions on the impact that regional integration could have on the economy, i.e. increasing domestic production, investment and export opportunities among other things.

Virtually all the responding companies supported regional integration within SADC, with the majority, 68% supporting it strongly. Similarly, all the NSA interviewed support SADC regional integration, with an even higher percentage, 83%, doing so strongly. In fact, some companies and NSA even complained about the slow pace at which SADC regional integration is being implemented, expressing the need to see more action than words.

Regional integration within COMESA also received less support than SADC among both companies and NSA. Only 50% of the companies and 58% of the NSA strongly supported regional integration within COMESA, compared to 68% and 83% respectively. ECA received much less support, and only 45% of the companies and 42% of the NSA supported it strongly.

There appears to be a contradiction with regards to the preference, by both business and NSA, for SADC vis-à-vis COMESA as this relates to increased market opportunities. COMESA presents itself as a larger market compared to SADC, but the latter is preferred. The business community in Zimbabwe is much more familiar with the SADC market than non-SADC COMESA. Removal of trade barriers within SADC (including greater availability of foreign exchange required for imported inputs) can easily lead to greater production for exports to the SADC region, with little investment in market exploration. But when it comes to COMESA, it would become necessary for business to make considerable investment to break into that market, given the limited knowledge that Zimbabwean business has about it.

The perceptions about the business climate in other countries reinforce the greater preference for SADC. Firstly, both business and NSA have a more positive perception of the business climate in SADC countries than the rest of COMESA and Africa. Further, they have more knowledge about the business climate in SADC than in COMESA and the rest of Africa. It is therefore not surprising that both business and NSA believe that, deepening regional integration within SADC will benefit them and the nation at large, at much lower cost compared to COMESA regional integration.

The overwhelming support for the SADC regional integration manifested itself in the responses that address the individual barriers to trade within SADC.

All the NSA want to see all trade restrictions removed, tariffs reduced and eventually eliminated within SADC, with a common external tariff to all other countries established. They all want restrictions on the free movement of capital, labour and services to be removed. Again all the NSA expressed the desire to see competition and trade policies designed for SADC as a whole. Only 2 out of the 12 NSA interviewed opposed implementation of the same level of taxes within SADC and the idea of a single currency within SADC while the rest supported these measures.

Business supported the removal of all the above trade barriers to a slightly lesser extent than the NSA. Note that the following trade barriers received the least support. The establishment of a political union was the least popular move, supported by 53% of the companies - still more than half. Next was removal of all trade restrictions at 68% support rate, followed by removal of restrictions on the free movement of labour (71%) and the creation of a single currency, supported by 74% of businesses interviewed. Relaxing of all other barriers was supported by at least 80% of the business community.

8 Summary and Conclusions

The major finding of the survey is that both the business community and NSA in Zimbabwe strongly support regional integration in general and more so within the context of SADC. They are both aware that regional integration will result in greater competition but they are confident that companies will be able to increase efficiency to stay competitive. In this regards they expect the national policy framework to address the current constraint and bottlenecks that they are facing in the form of foreign currency shortages and an unstable macroeconomic environment characterised by hyper-inflation.

Zimbabwean business and NSA expect deeper SADC regional integration to benefit the economy by easing production bottlenecks that prevail in the form of shortages of imported inputs and spare parts for equipment. This would lead to greater capacity utilisation and, hence, increased domestic production by local companies and increased efficiency and competitiveness of domestic industry. SADC regional integration is expected to create new investment and export opportunities and possibilities for business diversification, lower the prices of both inputs and consumer goods and open up opportunities for joint ventures with companies in other SADC countries.

For the country to reap the benefits of deeper SADC regional integration, it is necessary to put in place measures and policies that will strategically position Zimbabwean industry to enable it to compete effectively under a liberalised economic environment. In this regards, it is necessary to address the hyper-inflation prevailing in the country that hampers normal business operations. It is also necessary to make foreign exchange available so as to increase capacity utilisation and improve production efficiency. In general, the constraints that Zimbabwean industry is facing need to be addressed for the expected benefits from regional integration to materialise. Otherwise the trend of de-industrialisation would be the outcome.

The rating and ranking of trade barriers revealed that exchange rate uncertainty, high transport costs, customs tariffs currently employed and time consuming customs procedures are high barriers that have a high incidence rate. There is need for policy intervention to address these as a matter of priority. Higher levels of integration such as the establishment of a political union and creation of a single currency can come later. Some of the barriers to trade can be dealt with internally at country level for example domestic macroeconomic stability, which is an important priority that has implications on the ability of domestic companies not only to survive but to increase efficiency and thrive under a more competitive environment.

On the whole, the survey found out that both business and NSA are in favour of a free trade area with competition and trade policies for the SADC region. This would entail free movement of capital, labour and services within the regional block. SADC regional integration was preferred to COMESA. Both business and NSA were more familiar with the SADC region than COMESA countries and perceived the business climate in the former to be better than in the latter. On the whole both business and NSA have limited knowledge about the business climate in other countries, particularly outside SADC.

Zimbabwe should therefore continue to implement its tariff reduction schedules - along other SADC countries, while taking measures to relieve industry of the constraints that it is facing. It appears that Zimbabwe might have to make a choice between SADC and COMESA. Zimbabwe appears to be gravitating more towards COMESA than SADC. In making this choice, it is important to take into consideration the views of both business and NSA. It is recommended that consultations be made on this issue. The consultative process could greatly benefit from a through study of the comparative potential benefits from the two groupings.

Regional integration is a topic of debate in Zimbabwe. However the debate is not prominent. While the majority of the NSA attended workshops on regional integration at some point, this was less frequent than is desirable. The majority of companies did not attend any workshops on regional integration. Therefore their views on this subject are restricted by the limited knowledge available to them and the desire to survive under current difficult conditions. The fact that SACU quantitative restrictions did not come out as a major issue reflects the short term planning horizon that tends to occur when business is striving to survive. Companies and NSA also demonstrated limited knowledge of markets even within the SADC region, but more so beyond SADC.

There is need to create an effective framework for knowledge sharing and dissemination on matters of regional integration and economic policies in general. In Zimbabwe, there is the National Consultative Forum which could play a greater role in this matter. There is also the Non-State Actor Forum (NSAF) that was established in accordance with the spirit of the Cotonou Agreement.

There is need for capacity building on the NSAF and business to enable them to make informed contributions to trade policy formulation and debate on regional integration. The NAS expressed the need for such capacity building. If SADC and COMESA turn out to be mutually exclusive, national debate on which regional grouping to join would be necessary.

The support for regional integration from the business community and Non-State Actors and their enthusiasm on this matter indicate that deepening regional integration is the right step to take.

Appendix 1: Tables for Business Survey

Table B1: Type of Business

	Frequency	Percent
Private company	30	78.9
Parastatal, public enterprise	4	10.5
Private-Public Partnership	2	5.3
Others	2	5.3
Total	**38**	**100.0**

Table B2: Main Activity of Company

	Frequency	Percent
Agriculture	1	2.6
Mining	2	5.3
Manufacturing	20	52.6
Wholesale	4	10.5
Transport and communication	3	7.9
Financial services	2	5.3
Tourism	1	2.6
Others	5	13.2
Total	**38**	**100.0**

Table B3: Number of Employees

	Frequency	Percent
1-5	4	10.5
6-10	1	2.6
11-24	4	10.5
25-49	1	2.6
50-99	1	2.6
100+	27	71.1
Total	**38**	**100.0**

Table B4: Period of Operation

	Frequency	Percent
less than 2 years	1	2.6
2 to 5 years	5	13.2
6 to 10 years	1	2.6
more than 10 years	31	81.6
Total	**38**	**100.0**

Table B5: Annual Turnover

	Frequency	Percent
Less than 25,000	5	13.2
25,000 to 50,000	3	7.9
50,001 to 100,000	2	5.3
More than 100,000	28	73.7
Total	**38**	**100.0**

Table B6: Annual Imports and Exports

	SADC Imports Percent	Non-SADC Imports Percent	SADC Exports Percent	Non-SADC Exports Percent
Less than 25,000	39.5	55.3	52.6	84.2
25,000 to 50,000	5.3	5.3	5.3	0
50,001 to 100,000	7.9	7.9	13.2	5.3
More than 100,000	47.4	31.6	28.9	10.5
Total	**100.0**	**100.0**	**100.0**	**100.0**

Table B7: First and Second Main Export Market

	First main market Percent	Second main market Percent	
Botswana	5.3	Botswana	2.6
Malawi	2.6	Malawi	15.8
South Africa	23.7	Mauritius	2.6
Zambia	15.8	South Africa	10.5
EU	7.9	Zambia	13.2
Asia	2.6	Kenya	2.6
Others	5.3	Asia	2.6
Total	63.2	Total	50.0
No response	36.8	No response	50.0
	100.0		100.00

Note: No response for 1st main market means the companies do not export. For 2nd main market, it means that they do not export or they only export to one country

Table B8A: Competition from Other Countries

	RSA Percent	BLNS Percent	Other SADC Percent	Rest of Africa Percent	EU Percent
Yes strong	18.4	2.6	2.6	2.6	5.3
Yes moderate	28.9	10.5	2.6	0	7.9
Yes weak	15.8	5.3	5.3	7.9	2.6
No	23.7	60.5	57.9	57.9	52.6
Does not apply	10.5	15.8	23.7	23.7	23.7
Total	97.4	94.7	92.1	92.1	92.1
System	2.6	5.3	7.9	7.9	7.9
	100.0	100.0	100.0	100.0	100.0

Table B8: Continued

	Asia Percent	USA Percent	Rest of World Percent	Unknown Percent
Yes strong	23.7	5.3	2.6	0
Yes moderate	2.6	5.3	2.6	5.3
Yes weak	15.8	2.6	2.6	0
No	36.8	55.3	60.5	42.1
Does not apply	18.4	23.7	23.7	34.2
Total	97.4	92.1	92.1	81.6
System	2.6	7.9	7.9	18.4
	100.0	100.0	100.0	100.0

Table B9: Macroeconomic Impact of RI - Business Perceptions

	Strongly	Agree Agree	Disagree	Strongly disagree	Don't Know
Increase competition	42.1	50	5.3	0	0
Reduce input prices	28.9	47.4	13.2	10.5	0
Reduce prices of consumer goods	28.9	52.6	7.9	0	0
Increase efficiency to be competitive	39.5	52.6	5.3	2.6	0
Improve turnover of domestic companies	23.7	50	18.4	5.3	2.6
Positive impact on other domestic producers	34.2	50	7.9	2.6	5.3
Benefit the economy in general	26.3	63.2	2.6	2.6	2.6
Provide new export opportunities	31.6	55.3	5.3	2.6	5.3
Provide new investment opportunities	39.5	52.6	5.3	0	2.6
Reduce unemployment rates	18.4	50	21.1	5.3	5.3
Lower cost of labour	13.2	15.8	39.5	15.8	11.1
Influx of immigrants	21.1	21.1	26.3	18.4	10.5
Enhance human rights situation	10.5	42.1	18.4	10.5	15.8
Reduce political sovereignty	2.6	18.4	47.4	18.4	10.5

Table B10: Relevance of Trade Barriers

	Very relevant	Relevant	Hardly relevant	Not at all relevant	Not applicable
Customs tariffs	23.7	18.4	0	2.6	55.3
Import duties and taxes	10.5	28.9	0	2.6	57.9
SPS regulations	7.9	13.2	0	7.9	60.5
Rules of origin	23.7	18.4	0	2.6	55.3
Export/import licenses	15.8	23.7	5.3	0	55.3
Non transparent regulations abroad	5.3	18.4	10.5	10.5	55.3
Customs procedures	23.7	15.8	2.6	0	55.3
Bureaucracy	13.2	126.3	2.6	0	57.9
Corrupt officials	23.7	13.2	5.3	2.6	55.3
Information on foreign markets	21.1	18.4	2.6	5.3	52.6
Visa requirements	26.3	18.4	0	0	55.3
Exchange rate uncertainty	23.7	23.7	0	0	52.6
Risk of non-payment	13.2	10.5	7.9	0	55.3
Export insurance cover	2.6	15.8	7.9	5.3	68.4
Poor regional communication infrastructure	18.4	21.1	2.6	0	57.9
High regional communication costs	13.2	26.3	7.9	0	52.6
Regional transport infrastructure	21.1	18.4	2.6	5.3	52.6
High transport costs	23.7	23.7	0	0	52.6
Weak law enforcement in export destination	5.3	18.4	7.9	7.9	57.9

Table B11: Most Relevant Trade Barrier

	Frequency	Percent
Customs tariffs	5	13.2
Rules of Origin	1	2.6
Export/import licenses and permits	2	5.3
Time consuming customs procedures	2	5.3
Corruption of officials	1	2.6
Visa requirements for travelling abroad	1	2.6
Exchange rate uncertainty	2	5.3
Risk of non-payment of customers abroad	1	2.6
No export insurance to cover payment risks of exports	1	2.6
High transport costs	1	2.6
Others (please specify)	1	2.6
Total	18	47.4
System	20	52.6
	38	100.0

Table B12: Second Most Relevant Trade Barrier

	Frequency	Percent
Customs tariffs	3	7.9
Import duties and taxes	5	13.2
Rules of Origin	1	2.6
Lack of transparency of rules and regulations abroad	1	2.6
Time consuming customs procedures	2	5.3
Corruption of officials	1	2.6
Lack of information about foreign markets	1	2.6
Exchange rate uncertainty	1	2.6
Poor regional communication infrastructure	1	2.6
High regional communication costs	1	2.6
High transport costs	1	2.6
Total	18	47.4
Non importing companies	20	52.6
	38	100.0

Table B13: Third Most Relevant Trade Barrier

	Frequency	Percent
Customs tariffs	1	2.6
Import duties and taxes	5	13.2
Time consuming customs procedures	1	2.6
Substantial paper works, bureaucracy	1	2.6
Corruption of officials	1	2.6
Visa requirements for travelling abroad	2	5.3
Exchange rate uncertainty	1	2.6
Weak regional transport infrastructure	2	5.3
High transport costs	3	7.9
Total	17	44.7
Non importing companies	21	55.3
	38	100.0

Table B14A: Rating of Current Business Climate in Different Markets

	Domestic Percent	South Africa Percent	BLNS Percent	Other SADC Percent	Rest of Africa Percent
Very favourable	0	15.8	5.3	2.6	2.6
Favourable	23.7	50	44.7	34.2	2.6
Less favourable	23.7	7.9	7.9	21.1	18.4
Unsatisfactory	47.4	5.3	7.9	7.9	13.2
Don't know		18.4	28.9	31.6	57.9
Total	94.7	97.4	94.7	94.4	94.7
System	5.3	2.6	5.3	2.6	5.3
	100.0	100	100	100	100.0

Table B14: Continued

	EU Percent	USA Percent	Asia Percent	ROW Percent
Very favourable	15.8	13.2	18.4	0
Favourable	13.2	10.5	15.8	15.8
Less favourable	5.3	5.3	2.6	7.9
Unsatisfactory	7.9	10.5	5.3	7.9
Don't know	52.6	55.3	52.6	63.2
Total	94.7	94.7	94.7	94.7
System	5.3	5.3	5.3	5.3
	100.0	100.0	100.0	100

Table B15: Impact of RI on Domestic Business

	Likely	Unlikely	Don't know	Does not apply
Retrenchment of employees	13.2	76.3	2.6	5.3
More employment	75.7	21.6	0	2.6
Increased domestic production	73.7	21.1	0	2.6
Increasing investment abroad	63.2	23.7	7.9	2.6
Closing down of domestic production	13.2	78.9	0	5.3
More joint ventures in other SADC countries	73.3	18.9	0	5.3
New business activities	78.9	15.8	0	2.6
More imports from SADC	73.7	15.8	2.6	5.3
More exports to SADC countries	71.1	15.8	0	10.5
Access to cheaper inputs	79.3	15.8	2.6	2.6
Access to cheaper foreign labour	23.7	55.3	7.5	10.5

Table B16: Average Change by Sector as a Result of RI

	Average%	Average%	Average%	Average%	Average%	Average%
Agriculture	20.00	30.00	20.00	15.00	20.00	-10.00
Mining	2.50	2.50	2.50	2.50	2.50	-1.00
Manufacturing	7.61	31.76	21.32	55.00	32.22	-6.47
Wholesale	35.00	53.33	12.50	40.00	32.50	10.00
Transport and communication	3.50	7.50	11.00		10.00	-5.00
Financial services	10.00	20.00	30.00	20.00	25.00	-5.00
Tourism	20.00	25.00	50.00	30.00	40.00	-30.00
Others	26.67	53.33	46.67	.00	50.00	20.00
Total	13.09	31.83	21.92	43.70	30.33	-2.83

Table B17: Public Debates on Regional Integration

	RI in general	SADC	COMESA	ECA
Yes, very much	21.1	28.9	15.8	2.6
Yes, but not so prominent	47.4	50.0	36.8	28.9
No	28.9	18.4	39.5	50.0
Don't know	0	0	5.3	15.8

Table B18: Attending Workshops/Seminars on Regional Integration

	RI in general	SADC	COMESA	ECA
Yes, regularly	2.6	0	2.6	0
Yes, sometimes	23.7	18.4	10.5	7.9
No, because no workshops were offered	39.5	44.7	47.4	50.0
No, but workshops were offered	10.5	13.2	15.8	15.8
Does not apply	18.4	18.4	18.4	21.1

Table B19: Support for Regional Integration

	RI in general	SADC	COMESA	ECA
Yes strongly	60.5	68.4	50.0	44.7
Yes slightly	36.8	31.6	42.1	23.7
No	2.6	0	2.6	15.8
Don't know	0	0	5.3	15.8

Table B20: Preferred Degree of SADC Integration

	Yes	No	Don't know
Reduce tariffs	97.4	2.6	0
Remove tariffs and establish CET to all other countries	89.5	10.5	0
Remove all trade restrictions	68.4	31.6	0
Remove restrictions on free movement of capital	97.4	2.6	0
Remove restrictions on free movement of labour	71.1	26.3	2.6
Remove restriction on free movement of services	86.8	13.2	0
Implement same level of taxes	81.6	15.8	0
Design competitive trade policies for SADC Create a single currency	73.7	21.1	5.3
Create a political union with Parliament & Executive	52.6	34.2	10.5

Appendix 2: Tables for NSA Survey

Table N1: Type of Organisation

	Frequency	Percent
Organised labour	1	8.3
Organised employer	1	8.3
Industry association	4	33.3
Other civil society organisation	6	50.0
Total	12	100.0

Table N2: Period of Operation

	Frequency	Percent
6-10 years	3	25.0
More than 10 years	9	75.0
Total	12	100.0

Table N3: Membership to SADC National Committee And Regional Umbrella Organisation

	Membership to SADC National Committee	Membership to regional umbrella organisation
Yes	33.3	83.3
No	66.7	16.7
Total	100.0	100.0

Table N 4: Invitation to SADC National Committee Meetings

	Frequency	Percent
Yes, regularly	3	25.0
Yes, sometimes	1	8.3
No	7	58.3
Don't know	1	8.3
Total	12	100.0

Table N5: Participation in SADC National Committee Meetings

	Frequency	Percent
Yes, regularly	3	25.0
Yes, sometimes	1	8.3
No, was not invited	7	58.3
Don't know	1	8.3
Total	12	100.0

Table N6: Need to Increase Capacity among NSAs

	Frequency	Percent
Yes	11	91.7
No	1	8.3
Total	12	100.0

Table N7: Macroeconomic Impact of RI

	Strongly Agree	Agree	Disagree	Strongly disagree	Don't Know
Increase competition	25	75	0	0	0
Reduce input prices	8.3	75	17.7	0	0
Reduce prices of goods	25	66.7	8.3	0	0
Increase production efficiency	33.3	41.7	25	0	0
Improve turnover of domestic Companies	8.3	50	33.3	0	8.3
Benefit the economy in general	33.3	58.3	8.3	0	0
Provide new export opportunities	25	75	0	0	0
Provide new investment opportunities	33.3	66.7	0	0	0
Reduce unemployment rates	8.3	50	8.3	16.7	16.7
Lower labour costs	8.3	50	41.7	0	0
Influx of immigrants	16.7	16.7	50	8.3	0
Enhance human rights situation	25	66.7	0	0	8.3
Reduce political sovereignty	8.3	16.7	58.3	16.7	0

Table N8: Relevance of Trade Barriers

	Very relevant	Relevant	Hardly relevant	Not at all relevant	Don't know
Customs tariffs	50	50	0	0	0
Import duties and taxes	41.7	33.3	16.7	0	8.3
SPS regulations	25	58.3	16.7	0	0
Rules of Origin	50	25	25	0	0
Export/import licenses	58.3	33.3	8.3	0	0
Non transparent regulations abroad	33.3	41.7	8.3	8.3	8.3
Customs procedures	50	41.7	0	8.3	0
Bureaucracy	33.3	58.3	0	8.3	0
Corrupt officials	41.7	41.7	0	16.7	0
Information on foreign markets	33.3	58.3	0	8.3	0
Visa requirements	58.3	33.3	8.3	0	0
Exchange rate uncertainty	75	8.3	0	16.7	0
Risk of non-payment	25	41.7	16.7	8.3	8.3
Export insurance cover	16.7	58.3	8.3	8.3	8.30
Poor regional communication infrastructure	50	41.7	0	8.3	0
High regional communication costs	25	75	0	0	0
Regional transport infrastructure	33.3	66.7	0	0	0
High transport costs	33.3	50	16.7	0	0
Weak law enforcement in export destination	16.7	50	33.3	0	0

Table N9: Most Relevant Barrier to Trade

	Frequency	Percent
Customs tariffs currently employed	2	16.7
Import duties and taxes have to be paid in cash	1	8.3
Sanitary and phyto-sanitary regulations	2	16.7
Rules of Origin	2	16.7
Export/import licenses and permits required	1	8.3
Corruption of officials	1	8.3
Exchange rate uncertainty	1	8.3
Others	2	16.7
Total	12	100.0

Table N10: Second Most Relevant Barrier to Trade

	Frequency	Percent
Import duties and taxes have to be paid in cash	2	16.7
Rules of Origin	2	16.7
Export/import licenses and permits required	1	8.3
Lack of transparency of rules and regulations abroad	1	8.3
Time consuming customs procedures	1	8.3
Corruption of officials	1	8.3
Visa requirements for travelling abroad	1	8.3
Exchange rate uncertainty	1	8.3
No export insurance available to cover payment risks	1	8.3
Weak regional transport infrastructure	1	8.3
Total	12	100.0

Table N11: Third Most Relevant Barrier to Trade

	Frequency	Percent
Customs tariffs currently employed	1	8.3
Export/import licenses and permits required	2	16.7
Substantial paper works, bureaucracy	1	8.3
Lack of information about foreign markets	2	16.7
Exchange rate uncertainty	2	16.7
Risk of non-payment of customers abroad	1	8.3
High transport costs	1	8.3
Weak law enforcement in export destination	2	16.7
Total	12	100.0

Table N12: Impact of RI on Domestic Business

	Likely	Unlikely	Don't know
Retrenchment of employees	16.7	75	8.3
More employment	75	16.7	8.3
Increased domestic production	75	25	0
Increasing investment abroad	75	25	0
Closing down of domestic production	41.7	50	8.3
More joint ventures in other SADC countries	83.3	16.7	0
New business activities	83.3	16.7	0
More imports from SADC	91.7	8.3	0
More exports to SADC countries	83.3	16.7	0
Access to cheaper inputs	75	16.7	8.3
Access to cheaper foreign labour	41.7	58.3	0

Table N13: Impact of RI on NSA's Involvement in Policy Making

	Frequency	Percent
Strengthen strongly	7	58.3
Strengthen slightly	4	33.3
No changes expected	1	8.3
Total	12	100.0

Table N14: Involvement in Design of Policies

	SADC Policies	Domestic Policies
Yes	75	100.0
No	25	0

Table N15: Impact of RI on NSA's Influence on Domestic Policies

	Frequency	Percent
Strengthen strongly	7	58.3
Strengthen slightly	3	25.0
Weaken slightly	1	8.3
No changes expected	1	8.3
Total	12	100.0

Table N16: Public Debates on Regional Integration

	RI in general	SADC	COMESA	ECA
Yes, very much	25	33.3	33.3	25
Yes, but not so prominent	66.7	58.3	41.7	25
No	0	0	16.7	33.3
Don't know	8.3	8.3	8.3	16.7

Table N17: Discussions of Regional Integration within Organisations

	RI in general	SADC	COMESA	ECA
Yes, regularly	25	33.3	25	16.7
Yes, sometimes	41.7	41.7	25	25
No	25	16.7	41.7	50
Don't know	8.3	8.3	8.3	8.3

Table N18: Organisation of Public Workshops/Seminars on RI

	RI in general	SADC	COMESA	ECA
Yes, regularly	16.7	16.7	16.7	16.7
Yes, sometimes	16.7	8.3	8.3	0
No	58.3	66.7	66.7	75
Don't know	0	0	0	0
Does not apply	8.3	8.3	8.3	8.3

Table N19: Use of Press Releases to Raise Issues of RI

	RI in general	SADC	COMESA	ECA
Yes, regularly	8.3	16.7	16.7	8.3
Yes, sometimes	25	16.7	16.7	8.3
No	66.7	66.7	66.7	83.3
Don't know	0	0	0	0
Does not apply	0	0	0	0

Table N20: Attendance of Workshops/Seminars on Regional Integration

	RI in general	SADC	COMESA	ECA
Yes, regularly	25	33.3	33.3	16.7
Yes, sometimes	25	25	8.3	8.3
No - Because no workshops were offered	41.7	33.3	41.7	58.3
No, but workshops were offered	0	0	8.3	8.3
Don't know	8.3	8.3	8.3	8.3
Does not apply	0	0	0	0

Table N21: Support for Regional Integration

	RI in general	SADC	COMESA	ECA
Yes strongly	75	83.3	58.3	41.7
Yes slightly	25	16.7	41.7	25
No	0	0	0	25
Don't know	0	0	0	8.3

Table N22: Preferred Degree of SADC Integration

	Yes	No	Don't know
Reduce tariffs	100	0	0
Remove tariffs and establish CET to all other countries	100	0	0
Remove all trade restrictions	100	0	0
Remove restrictions on free movement of capital	100	0	0
Remove restrictions on free movement of labour	100	0	0
Remove restriction on free movement of services	100	0	0
Implement same level of taxes	83.3	16.7	0
Design competitive trade policies for SADC	100	0	0
Create a single currency	83.3	16.7	0
Create a political union with Parliament & Executive	75	25	0
Create umbrella organisation for NSA	100	0	0

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