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Zimbabwe Trade Brief

Trade Policy

Zimbabwe has one of the more protectionist trade regimes in the Sub-Saharan Africa (SSA) region. The country applies at least six ad valorem tariff bands. Its average MFN applied tariff has increased almost ten percentage points since 2002 to 25.5 percent in 2008, with more than half of that increase over the past year. Based on it, Zimbabwe is ranked 178th out of 181 countries, where 1st is least restrictive. The country's simple average MFN applied tariff is more than double the averages for the SSA region and low-income countries, which are 12.5 percent and 12.7 percent, respectively, but the trade-weighted average MFN applied tariff is much lower at 16.3 percent There is little difference between the tariff protection for the agricultural and non-agricultural sectors. Since 2003 Zimbabwe's maximum MFN applied tariff including ad valorem equivalents of specific tariffs (excluding alcohol and tobacco) increased tenfold to 1,000 percent in 2008. The country's trade policy space, as measured by the wedge between bound and applied tariffs (the overhang), is 71.8 percent. Regarding its commitment to liberalizing services trade, Zimbabwe ranks 102nd (out of 148) on the GATS Commitments Index.

As a result of rising food prices and shortages, in May 2008 the government suspended the import duty on many food staples, including rice, flour, wheat, and cooking oil for a period of six months. The statutory instrument providing duty-free importation of these basic consumer items was extended further and is now valid till end 2009. In a hyperinflationary environment, the 2009 budget stipulated that customs duties would be paid in foreign currency, and at the same time reduced import duty rates. From February 2009, duties on raw materials dropped from 0–25 percent to 0–15 percent, and the tariff range on intermediate goods narrowed to 10–15 percent from 10–25 percent. Ad valorem maximum tariffs on most finished goods were brought down from 60 to 40 percent, except for motor vehicles who tariff range dropped from 50–80 percent to 25–60 percent.[1] Further duty reductions were undertaken in August 2009.

External Environment

Zimbabwe's international market access is not as favorable as that of its SSA and low-income comparators. The weighted average of the rest of the world tariff (including preferences) faced by Zimbabwean exports is 4.7 percent, compared to the averages of 3.5 percent and 3.9 percent for its SSA and low-income comparators, respectively. The rates faced by agricultural goods and non-agricultural goods are significantly different, at 14.4 percent and 0.8 percent, respectively. Over the course of 2008, the Zimbabwean dollar experienced crippling hyperinflation. By the end of 2008, there was almost complete dollarization of the economy as the Zimbabwean dollar virtually disappeared from circulation. This helped to curb the massive hyperinflation and brought more stability to the economy.

As negotiations between the Eastern and Southern Africa (ESA) group, to which Zimbabwe belongs, and the EU towards a comprehensive Economic Partnership Agreement (EPA) could not be completed prior to the December 2007 deadline, Zimbabwe, with five other members of the ESA group, initialed an "interim" agreement (but with individual market access schedules) with the EU in December 2007 to retain its preferences to the EU market under the Cotonou Agreement. Along with Madagascar, Mauritius, and the Seychelles, Zimbabwe signed the interim EPA in August 2009.[2] The country also belongs to the Common Market for Eastern and Southern Africa (COMESA), which established a customs union in June 2009 and plans to fully implement it by 2012. Zimbabwe is also a member of the 15-country Southern African Development Community (SADC), whose Trade Protocol, which

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Unless otherwise indicated, all data are as of August 2009 and are drawn from the World Trade Indicators 2009/10 Database. The database, Country Trade Briefs and Trade-at-a-Glance Tables, are available at http://www.worldbank.org/wti.

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was signed in 1996 and came into force in 2000, culminated in the launch of a free trade area in August 2008.

Behind the Border Constraints

Zimbabwe does not have a very favorable business environment, as indicated by its ranking of 159th out of 183 countries on the 2010 Ease of Doing Business Index. The Logistics Performance Index (LPI), a measure of the extent of trade facilitation, rates Zimbabwe at 2.29 on a scale of 1 to 5, compared to 2.35 for the SSA region and 2.29 for countries in the low-income group. It ranks 114th (out of 150) in the world and 24th (out of 39) in the SSA region (with South Africa leading the regional group). On the LPI, its best performance is in ensuring the timeliness of shipments in reaching their destination, while its weakest performance is in the quality of transport and IT infrastructure for logistics.

Trade Outcomes

The economic situation in Zimbabwe for 2008 was extremely dismal, with widespread unemployment and soaring hyperinflation resulting in a dramatic decrease in GDP. The formation of a new government in February 2009 has started to address many of the economic issues. However, trade has suffered as a result of the gloomy economic situation. Real trade (in constant 2000 U.S. dollars) fell by an estimated 0.3 percent in 2008 after a 2.5 percent contraction in 2007, and is expected to fall again by 1 percent in 2009. The decline in trade was driven by an estimated 2.8 percent contraction in imports in 2008 following a 6.4 percent contraction in 2007. Exports, on the other hand, managed to register estimated positive growth of 2.4 percent in 2008, compared to 2.1 percent in 2007. Both imports and exports are, however, expected to drop in 2009 by 1.2 percent and 0.7 percent, respectively.

In nominal terms, trade fell by an estimated 0.3 percent as well, following an 8.9 percent increase in 2007. Although imports fell in real terms in 2008, high fuel prices drove an estimated 5.7 percent growth in nominal imports compared to 6.9 percent the previous year. Conversely, the increase in output of exports was offset by lower prices, resulting in an estimated 4.1 percent decline in exports in 2008, compared to a 10.3 percent increase in 2007. Goods exports fell by an estimated 4.2 percent in 2007 after growing by 10.5 percent in 2007, and are expected to plummet again in 2009 by 18.7 percent. Services exports performance was no better; services exports dropped by an estimated 2.9 percent in 2008 following a 7.1 percent increase in 2007, and are expected to drop again by 8.3 percent in 2009.

Notes

1. Zimbabwe Ministry of Finance, 2009 National Budget Speech, para 482-3.
2. ICTSD, 2009.

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