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Linkages between Trade and Industrial Policies: The Case of Zimbabwe

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indigenous growth

**LINKAGES BETWEEN TRADE AND INDUSTRIAL
POLICIES: THE CASE OF ZIMBABWE**

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For TIPS – South Africa

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Acronyms

ACP	African Caribbean and Pacific states
ACBF	African Capacity Building Foundation
AIDS	Acquired Immunodeficiency Syndrome
ARDA	Agricultural and Rural Development Authority
ASPEF	Agricultural Sector Productivity Enhancement Facility
BACOSSI	Basic Commodities Supply Side Intervention
BOOT	Build, Operate, Own and Transfer
BOT	Build, Operate and Transfer
COMESA	Common Market for Eastern and Southern Africa
CSOs	Civil Society Organisations
CZI	Confederation of Zimbabwe Industries
DPRU	Development Policy Research Unit, University of Cape Town
DRC	Democratic Republic of Congo
EAC	East African Community
EPAs	Economic Partnership Agreements
EPZA	Export Processing Zone Authority of Zimbabwe.
ESA	Eastern and Southern Africa
ESAP	Economic Structural Adjustment Programme (ESAP)
EU	European Union
FTA	Free Trade Area
GDP	Gross Domestic Product
GOZ	Government of Zimbabwe
HIV	Human Immune Virus
IDBZ	Industrial Development Bank of Zimbabwe
ICT	Information and communication technology
IDC	Industrial Development Corporation
IMF	International Monetary Fund
MFN	Most Favoured Nation
MIIT	Ministry of Industry and International Trade
NECF	National Economic Consultative Forum
NGOs	Non Governmental Organisations
NOCZIM	National Oil Company of Zimbabwe
NRZ	National Railways of Zimbabwe
NSAs	Non State Actors
NUST	National University of Science and Technology
OGIL	Open General Import Licence
RoO	Rules of Origin
SACU	Southern African Customs Union
SADC	Southern African Development Community
SDIs	Spatial Development Initiatives (SDIs)
SEDCO	Small Enterprise Development Cooperation
SIRDC	Scientific and Industrial Research and Development Centre
SMEs	Small and Medium Enterprises
STERP	Short Term Economic Recovery Programme
UDI	Unilateral Declaration of Independence
UK	United Kingdom
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme

USA	United States of America
WTO	World Trade Organisation
ZDB	Zimbabwe Development Bank
ZEPARU	Zimbabwe Economic Policy and Research Unit
ZESA	Zimbabwe Electricity Supply Authority
ZIA	Zimbabwe Investment Authority
ZIC	Zimbabwe Investment Centre
ZINWA	Zimbabwe National Water Authority
ZISCO	Zimbabwe Iron and Steel Company

Executive Summary

Economies in the contemporary world view industrial development as key to growth. Industrial policies are therefore used as one of the tools to achieve growth. These policies vary in approach and implementation from country to country as each country sets an industrial structure that promotes productivity and growth tailored to the conditions of an economy.

An industrial policy is a set of actions by a country aimed at influencing the relocation of resources across national industries. Thus it deals with the productive capacities of an economy. The produced goods require a complementary set of actions in order to facilitate their exchange; such actions fall under a trade policy.

The objective of this paper is to establish the nature and extent of linkages between trade and industrial policies in Zimbabwe. It also seeks to enhance policy makers' understanding of the key dynamics within the industrial policy in Zimbabwe. It is also aimed at suggesting recommendations for the policy makers in Zimbabwe that will help in achieving effective industrial development in the country.

The methodology used in this paper is largely desk review though personal interviews were also carried out with government officials and with those in the private sector to obtain further details about the trade and industrial policies linkages.

The manufacturing sector contributes significantly to the Zimbabwean economy in terms of GDP, exports, employment and value addition to locally produced raw materials. The sector developed over time but there performance has been declining due to the deep political and socio-economic crises that the country has experienced in the past ten years. The authorities see the current challenge for the country to involve the need to retool, to recapitalise, to rehabilitate and to install new investments. The country also needs to improve the investment climate.

Zimbabwe's industrial and trade policies evolved over time. Currently, with the country largely exporting primary commodities the main objective of the industrial policy is to turn Zimbabwe from an exporter of these products into an exporter of value-added goods. The shift is on the basis of the fact that value addition is seen as associated with generating new employment and investment opportunities. The policy also seeks to promote industry by various means, including through enhancing human capital as this is recognised as a key asset in achieving the objectives of the industrial policy. Trade policy, on the other hand, aims to consolidate the existing markets and to diversify into non-traditional ones.

The main finding of the paper is that the trade and industrial policies are interlinked in Zimbabwe although the thrust of the linkages between the two policies over the period under study shifted. During the post independence era (1980-1999) the trade policy thrust was on the accessibility of markets for agriculture raw materials instead of on industrial goods. The current trade policy thrust however is on export promotion of the higher value added

manufactured goods although the export basket is still largely composed of primary commodities. The challenge however, is in terms of the extent to which this has been implemented in view of the political and socio-economic challenges the country faced in the last decade. Indeed, the trade policy is one of the implementation strategies of the industrial policy, illustrated in this paper using the examples of the clothing and textile industry. A shock in one policy directly impacts on the performance of the other policy.

In terms of private sector involvement, the industrial policy recognises the role of this particular sector in policy formulation. The government involves the private sector through a deliberate policy of cooperation between itself, the private sector, labour and civil society – a policy aimed at transforming the country into a winning nation. Policy formulation in Zimbabwe is also backed by research from government institutions, research organisations, NGOs and foreign expertise.

In order to lure investment, the country put in place both domestic and export incentives and created a legal environment for the protection of the rights of the investors. It also created a one stop shop organisation – the Zimbabwe Investment Authority – that manages all matters concerning investment activities in Zimbabwe.

Zimbabwe's industrial policy document makes provisions for trade policy. These provisions are, however, not well articulated. While the industrial policy contains no performance indicators, the paper attempts to provide a summary of the extent to which the industrial and trade policies have been implemented. Implementation did not proceed according to plan and the impact of these policies was minimal, particularly over the last ten years and due to the challenges that haunted the country. Also, the paper highlights the fact that the two policies are dependent on regional integration. However, the industrial policy is still relevant and hence needs full implementation. The parastatals need to be repositioned and recapitalised for them to deliver their mandate.

The paper recommends that the country needs to create a conducive macroeconomic environment for the economic agencies. It is key to restore and increase the country's normal capacity utilisation and other sectoral linkages such as the agriculture, mining, tourism and construction which have been under severe stress in the past ten years. In this regard, there is need for a holistic take-off of these key sectors in order for them to support fully the manufacturing sector. For example, the government has to work hand-in-hand with the private sector to resuscitate the agricultural sector as this is strongly linked not only to the manufacturing sector, but to the economy in its entirety. The social contract must be resuscitated. This involves government, labour and the private sector working together for policy making and for the implementation processes. The relationships among these three pillars have been disturbed by the deep economic and political crises mentioned above a scenario that has derailed the implementation process of the industrial and the trade policy in Zimbabwe.

The paper suggests that while focus has been placed on priority industries, the country must also give priority to specific products. The government must also create an investment

climate conducive to attracting investors. The country also faces a serious need to invest in technology, research and development.

1. INTRODUCTION

Zimbabwe has vast potential for export revenue generation, an advantage emanating from its diversified export basket. The sectors that currently contribute significantly to export earnings include mining, agriculture and tourism.¹ However, the export basket is dominated by unprocessed primary commodities, largely constraining Zimbabwe's capacity to maximise export earnings.

The government strongly believes that transforming its natural resources into value-added manufactured products will boost its export sector. This is critical as increased export earnings are central to the recovery of the economy. In this sense, Zimbabwe's industrial policy is strongly linked with its trade policy. The broad objective of Zimbabwe's industrial policy is to transform the country from a producer and exporter of primary goods to a producer and exporter of value-added goods. Through an extensive consultation process between the public and the private sectors, a National Export Strategy (NES) was crafted. The NES seeks to address constraints throughout value chains with a view to enhancing the competitiveness of Zimbabwe's exports. This strategy also seeks to take advantage of the trade arrangements to which Zimbabwe is a signatory, e.g., bilateral, regional and multilateral pacts. The business sector is expected to play a pivotal role in this export strategy, both as the cooperating partner to the government and as the implementing arm to realise the nation's vision for export earnings.

This paper has 6 sections. **Section 2** provides an overview of Zimbabwe's manufacturing sector and the evolution of the trade and industrial policies from 1965-2008. It also provides the rationale for the foundations of the two policies.

Section 3 looks at the goals, objectives and strategies of the industrial and trade policies in Zimbabwe.

Section 4 sets out the linkages between the two policies and provides an example of a sector where the two are linked. The section also looks at the role of the private sector in policy making in Zimbabwe and reveals that the private sector is consulted to a great extent. Research feeds into the policy making process and the work is done by various agencies in the private sector, academia, research institutes and civil servants, as well as by international technocrats. It also gives the policy instruments and incentives for the domestic and foreign investors who undertake investment in Zimbabwe. Finally, it looks at the extent to which the trade and industrial policies depend on regional integration. The main conclusion of this section is that these two policies are indeed dependent on the regional platforms, although the country has not been able to fully exploit the opportunities of opening up.

¹ In mining, the country boasts of gold, platinum, ferrochrome, nickel, granite, asbestos, coal, and diamonds. In agriculture, the main exports are tobacco, cotton, beef, sugar, tea, coffee as well as floriculture and horticulture products.

Section 5 looks at performance indicators and notes that the targets and indicators needed to assess the performance of the industrial policy are not stated in the policy document. This paper thus reveals the extent to which the industrial and trade policies have been implemented. In terms of performance, the two policies have been affected by the political and economic environment. In terms of impact, de-industrialisation has taken place rather than positive industrial development. **Section 6** provides a conclusion and lays out the way forward.

For the purposes of this paper, the author defined the sector that the industrial policy tries to target as the manufacturing sector. Locally, this is commonly termed “industry”.

2. Background

2.1 Overview of the manufacturing sector

Zimbabwe’s industry is distributed across the whole country with varying degrees of sophistication but concentrated in the capital city, Harare. Industry usually locates in areas close to their natural resource inputs. However, in the case of Zimbabwe, the evidence seems to point to other factors – such as availability of infrastructure and services which are concentrated in the capital city – as key drivers for location (Scientific and Industrial Research and Development Centre (SIRDC), undated, p.10).

The manufacturing sector contributes significantly to Zimbabwe’s economy in terms of Gross Domestic Product (GDP), exports, employment and value addition to locally produced raw materials. The sector is the backbone of the Zimbabwean economy through backward and forward linkages with other major sectors of the economy, i.e., agriculture, tourism, mining and services.

The most integrated and diversified manufacturing sector of Zimbabwe partly owes its position to the long period of trade sanctions following the Unilateral Declaration of Independence (UDI) between 1965 and 1980. UDI meant that manufacturing output had to be increased dramatically in order to provide goods which, until then, had been imported. The level of development in the manufacturing sector is evidenced by the positions of some of the country’s companies in the region. For example, the Zimbabwe Steel Corporation is the only fully-fledged sub-Saharan steel producer outside South Africa.²

Achievements in the manufacturing sector have, in turn, been attributed to the good infrastructure in place during the 1990s. The infrastructure was established in the wake of earlier robust economic performance driven mostly by agricultural performance (tobacco, cotton lint) and manufacturing (steel and ferroalloys). The agricultural infrastructure, mainly comprised of tobacco barns, dams, greenhouses and dairy equipment, ensured the transfer of abundant agricultural raw materials to the manufacturing sector. In parallel, the manufacturing sector had well-equipped plants and equipment as well as cotton ginneries.

² Institute of Security Studies (undated) “Zimbabwe - Economy” <http://www.iss.co.za/af/profiles/zimbabwe/Economy.html> (Date accessed: 4 December 2008)

Support for this sector came from a diversified banking sector and sound and established financial services. Good manufacturing performance was also ascribed to high quality and properly developed public sector infrastructures such as the road and railway networks, communications networks and water reservoirs, as well as high levels of human capital. Of the latter, it should be noted that the country had the highest literacy rate in the Southern African Development Community (SADC), thus offering better employment prospects than elsewhere. All these factors played a critical role in the cross linkages in economic activities, i.e., the networking of economic activities.

The development of the manufacturing sector with the robust support from the factors noted above and led to a wide range of products being produced in various primary sectors. Major products of the manufacturing sector in terms of output – and derived largely from the domestic mining and agriculture sectors – included food, drink, tobacco, textiles, wool, paper, chemicals, non-metallic mineral products, metals and metal products, transport equipment and construction materials.³

A closer look at the manufacturing sector reveals the following as major sub-sectors:

- (i) **Textiles:** Cotton ginning, spinning, weaving, finishing textiles and knitting products
- (ii) **Clothing & Footwear:** Apparel and shoes
- (iii) **Chemicals:** fertilisers, insecticides, pest deterrents, paints, varnishes, soaps, detergents, inks, glues, polishes, pharmaceuticals, industrial chemicals, petroleum products, rubber and plastic products
- (iv) **Wood & Furniture:** Sawmilling, wooden products, furniture and fixtures
- (v) **Metal & Metal products:** Machinery and equipment, radio and communication equipment.
- (vi) **Information Communication Technology:** Information processing, computer assembly, solar technology and consumer electronics.

For investors considering the Zimbabwean market, strongly export orientated sectors include minerals, tobacco, cotton, sugar, and food & beverages. Opportunities are available both in primary production – such as food and cash crops, horticulture, livestock, poultry farming, fishing and fish farming and game and wildlife ranching - and in value addition. The Zimbabwe Investment Authority provides reports that value addition in the agriculture sector, for example, is concentrated in meat processing, fruit juice manufacturing, horticulture and floriculture (with additional export opportunities), processing of cotton lint, sugar milling and timber processing.

In the 1980s the manufacturing sector was absorbing 76% of domestic content of manufacturing inputs while imported inputs contributed only 24%. The sector was the biggest contributor to GDP between 1980 and 1990 followed by agriculture. However, with the challenges that befell the economy (deep political and economic crises with hyperinflation, capital flight, deindustrialisation, international isolation, acute foreign currency shortages, dilapidation of the infrastructure, among others from 1999) its contribution to GDP fell

³ <http://www.iss.co.za/af/profiles/zimbabwe/Economy.html>

markedly to about 17% in 2007 – a figure below that of the agriculture sector, the contribution of which is 19%. Poor performance of the manufacturing sector was however, also partly caused by the dismal performance of the agriculture sector for reasons laid out above. This is illustrated in Table 1 in terms of production of maize – a staple food.

Table 1. Zimbabwe - Maize area, yield and production, 1999-2009^{4 5}

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Area (000 ha)	1 478	1 374	1 240	1 328	1 352	1 494	1 730	1 712	1 446	1 722	1 426
Yield (t/ha)	1.09	1.18	1.23	0.46	0.78	1.13	0.53	0.87	0.66	0.27	0.80
Production (000 t)	1 607	1 620	1 526	605	1 059	1 686	915	1 485	953	471	1 140

Source: 1999-2007 CSO, 2008 Agritex, 2009 CFSAM in FAO (2009, p.12).

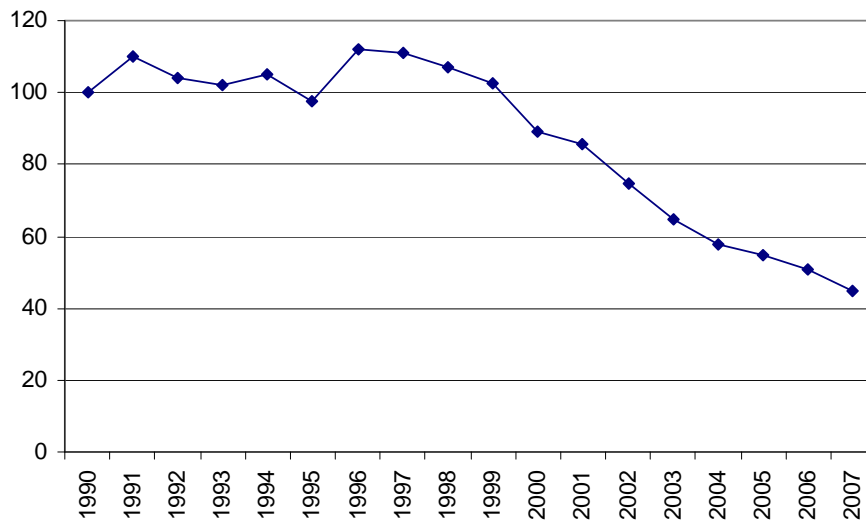
Concomitantly to this poor performance, the formally employed workers in the manufacturing sector, going by the data provided by the country's Central Statistic Office, fell from 206 000 in 1991 to 155 000 in 2004 (CZI, 2007). Yet, this sector, which contributed to 16% of employment in the formal sector between 1980 and 1990 saw its relative importance only marginally altered – it contributed to 15% of employment between 2001 and 2004. In contrast, the contribution of this sector to exports dropped sharply: manufacturing exports declined from 45% between 1980 and 1990 to about 17% in 2007 though shipments in the manufacturing sector already decreased over the 1980 to 1990 period as a result of the fall in the production capacity of most companies.⁶ The loss of capacity has been due to severe shortages of foreign exchange necessary to import critical raw materials and spares for machinery, as well as to high local production costs, power outages and the high cost of borrowing (Gono, 2009, pp.85-93). Generally, in the manufacturing sector, growth, output and value addition have been on a downward trend over the last 13 years. This trend is illustrated in Figure 1.

⁴ FAO (Food and Agriculture Organisation).(2009) Global Information and Early Warning System on Food and Agriculture World Food Programme: “Special Report FAO/WFP Crop and Food Supply Assessment Mission to Zimbabwe”, p.12.

⁵ Production of maize was 1 607 000 tonnes in 1999 but gradually fell over the years, reaching its lowest point in 2008 when 471 000 tonnes were produced. Production showed signs of recovery only in 2003/4 and in 2009.

⁶ Total shipments for the manufacturing sector from 1 January to 31 December 2008 amounted to only US\$220,361,232, compared to US\$250,463,244 for the same period in 2007, reflecting a 12% decrease.

Figure 1. Output of the manufacturing sector between 1990 and 2007 (index, 1990=100)



Source: Kwaramba M. (2009) “Re-energizing the industrial base and drawing the world’s attention to Zimbabwe - towards a robust industrial, Trade and Investment Strategy”⁷ (Slide 10)

Zimbabwe, once considered one of the most advanced economies in Southern Africa and with an industrial base second only to South Africa, has been losing this strategic position over the last thirteen years. Indeed, the industrial base has collapsed.

Most industries in the manufacturing sector are experiencing low capacity utilisation. According to the Confederation of Zimbabwe Industries (CZI) manufacturing sector surveys, capacity utilisation was 33.8% in 2006 and fell to 18.9% 2007 (CZI, 2008, pp 14-16). The sector is currently operating at an average of 10% of capacity while the objective, as stipulated in Short Term Recovery Programme (STERP), is to achieve at least 60% of capacity by the end of 2009. The latter is an ambitious target given the constraints on the ground. Recovery of the manufacturing sector will depend on substantial capital injection and this is not happening. Investors are still shying away and the country itself is not in a position to generate the foreign currency necessary to stimulate production in the manufacturing sector.

Poor performance of the manufacturing sector was because of the cumulative effects of droughts, macroeconomic policy deficiencies, global recession and the HIV/AIDS pandemic, all of which resulted in macroeconomic problems leading to a fragmented industrial base. This was worsened by the collapse of both domestic and foreign investment as risk became too high for any investment to yield any positive and meaningful returns. Also, the use of populist policies imposed by the government, the hyperinflationary environment, and shortages of foreign currency, raw materials, water and energy constrained production further and more severely. Industry profitability plummeted and most equipment and plants became technically obsolete due to disincentives for maintenance. The costs of production were simply too high when compared to net revenue. Coupled with the price controls and the

⁷ Presentation made at a workshop on Trade Capacity Building Project for Non State Actors, 2009, Harare.

hyperinflationary environment, companies have been unable to incur such expenses. Most plant and equipment is, therefore, unreliable and inefficient. Some industries had low investments in plant and equipment due to negligible returns realised from upgrading existing machinery and technology. Thus, overlay investment from both domestic and foreign sources collapsed. Because of this operating environment, industries can offer only paltry remuneration at a level that fails even to meet transport costs for the workers. This, in turn, has led to a massive brain drain. Generally, low employee confidence and low capacity utilisation imply more idle time in the workplace, leading to human resource management problems.

There is need to retool, recapitalise and rehabilitate plant and equipment and to install new investments if the country is to get back onto its feet again and be strategically repositioned to take advantage of opportunities in the region and beyond. Reindustrialising Zimbabwe will take time and will depend heavily on substantially increased inflows of foreign direct investment. Hence it is imperative for the country to make efforts to improve the investment climate for both domestic and foreign investors.

2.2 The evolution of the trade and industrial policies

This paper tries to explain the evolution of the two policies by splitting the period between 1965 and 2008 into four distinct phases. Essentially, these phases saw a shift in the role of the state and how it shaped the industrial and trade policies.

The first phase – pre-independence to 1980 – was strongly state led, with government pursuing import substitution with heavy protection for local industry.

The second phase, 1980-1989, was the first decade after the country attained its political independence and the economy was still strongly state led.

However, **the third phase**, 1990-2000, ushered in reforms through a structural adjustment programme as well as through trade regimes, e.g., under the World Trade Organisation (WTO).

The last phase, 2000-2008, was a period of weak and *ad hoc* state intervention. The economy was highly open regionally as it also implemented the gradual tariff reductions under the SADC Free Trade Area (FTA). As the country was then in a political and economic crisis, government intervened through price and foreign exchange controls, among other protectionist measures.

Table 2 provides a short history of Zimbabwe's industrial and trade policies in the aforementioned period in a tabular format.

Table 2. Zimbabwe's Economic Policy Framework, 1980 to 2008

	Pre-independence	1980-1989	1990-2000	2000-2008
Policies	Strong, State led: <ul style="list-style-type: none"> • Import substitution industry; • Protection; • White enclave. 	Strong, State led: <ul style="list-style-type: none"> • Infant industry protection; • Tight controls through tariffs; • Foreign exchange allocation; • Growth with equity. 	IMF/World Bank led: <ul style="list-style-type: none"> • ESAP; • Export promotion; • Trade liberalisation; • Financial deregulation; • Export retention schemes; • Cost recovery. WTO Agreements <ul style="list-style-type: none"> • Free market ideology; • Liberalisation of almost everything (goods and services). 	Weakened State, attempting to regain control <ul style="list-style-type: none"> • Highly open but mixed economy; • <i>Ad hoc</i> state intervention; • Tight foreign exchange control regulations (initially); • Price controls; • Import liberalisation; • EPAs (initialled).
State of the Economy	Strong/vibrant	Strong/vibrant	Gradual disintegration / de-industrialisation/de-agriculturalisation	Collapsing

Source: <http://www.seatini.org/Articles/zimbabwe.html>

2.2.1 The pre-independence period

During the pre-independence era (1965 to 1980), Zimbabwe was relatively isolated from the rest of the world because of international sanctions. This reduced the export-earning capacity of the economy and made imports both, harder to source and more expensive. The context was seen, however, as offering some stimulus for a strategy of industrialisation as a substitute for imports. This was supported by the then government, combined with wide-ranging controls on foreign trade and capital movements, to avert a possible balance of payments crisis. These regulatory policies ushered in other forms of controls - such as price controls - as a way of stopping the profiteering by those allocated foreign exchange.

In 1980 the country attained political independence, resulting in the end of sanctions. The new government embarked on programmes aimed at addressing the effects of the liberation struggle. It received assistance from the international community. By the end of 1982, however, government became concerned about the longer-term debt implications of the boom and began to pay more attention to macroeconomic balance. Tightening foreign exchange rationing was the main instrument for doing this. Government also entered into its first standby agreement with the International Monetary Fund (IMF), following which the Zimbabwe dollar was devalued (Bhalla *et al.*, 1999, pp.30-49). The Reserve Bank of Zimbabwe consequently pursued the policy of avoiding real exchange rate appreciation.

The control regime did not reap much in terms of economic growth and development. The government saw that low investments were inhibiting the prospects for future growth. This is one of the reasons why it took tentative steps towards reforms in the late 1980s. The country had resorted to import rationing in the early 1980s but the authorities were convinced that

long term export expansion was the only way to reduce foreign currency constraints. Government therefore pursued an exchange rate policy aimed at reducing real appreciation. This was combined with a variety of export incentive schemes including the retention of export earnings by exporters. Export earning retention worked on the basis that exporters would retain a proportion of their export earnings for the purchases of machinery and raw materials needed to boost output. The scheme was successful in increasing the share of foreign currency allocated outside the administered allocation system with this being particularly pronounced towards the end of the 1980s.

Growth during the control regime of the 1980s was constrained by the scarcity of foreign exchange, as well as by an overvalued exchange rate. The main drivers of industrial growth were thus domestic demand and import substitution.

2.2.2 The real domestic economy during the reform period

The Economic Structural Adjustment Programme (ESAP) implemented between 1991 and 1995 ushered in structural reforms in the economy that included, trade, foreign exchange and financial reforms. Policies entailed industrial delicensing,⁸ the removal of subsidies, as well as privatisation. An industrial policy document was, at the time, nonexistent however. Instead, industry was influenced by the effects of other policies that were pursued for macroeconomic, trade and other purposes.

The country reformed the trade and foreign investment policies. It dismantled industrial licensing as well as the fixed exchange rates and import controls that had been introduced in the pre-independence period. Trade was thus liberalised; indeed, trade liberalisation was the most significant policy reform implemented under ESAP. Some raw materials were placed under Open General Import Licence (OGIL)⁹, later followed by intermediate and other imports. By 1994, most goods were on this scheme with the exception of textiles, clothing and a few other goods.

The foreign exchange market was reformed. Government phased out foreign currency exchange allocation (with the exception of tariffs) in order to protect local industry. The market was then allowed to allocate foreign currency not only to exporters, but also to other traders. In 1994, government introduced a dual system whereby the exchange rate would be determined on an inter-market with little government control in order to support the Zimbabwean dollar from short term fluctuations and to maintain sufficient reserves). The real rate of exchange was allowed to depreciate in a bid to reallocate resources to the export sector and to sustain export competitiveness. Zimbabwe also introduced new export incentives, such as export retention schemes, as a way of setting aside funds for purchases of machinery and raw materials in order to boost production.

⁸ The removal of quantitative restrictions through the abolition of the import licensing system, coupled with a rapid expansion of the list of items that could be imported under OGIL.

⁹ This system allowed certain goods to be imported into Zimbabwe without an import licence having to be obtained. This meant that anyone could import certain commodities without bureaucratic constraints.

It was only in 1999 that the Ministry of Industry and Commerce published the Framework for Industrial Development, Trade and Investment in Zimbabwe (GOZ, undated, p.3). This framework briefly outlined the intentions of government with regard to industrial policy. The reforms shifted the country from quantitative restrictions to tariffs which were also reduced following the birth of the WTO. The country also reviewed its tariff structure in 1997 and in 1999. A tariff commission was set up in 1998, along with a competition commission to deal with monopoly problems in the economy.

The foreign trade regime in 1991 was characterised by direct controls, import and foreign exchange controls, import tariffs at varying rates across commodities, and a 20% import tax. Trade liberalisation simplified the tariff structure and significantly reduced the average applied rate to 17% by 1994. The Government's aim was to move towards greater uniformity in the tariff structure. In later years however, (that is from 1995 to date), tariffs were adjusted in variance with the latter objective. For instance, responding to requests by some producer groups for protection, government in 2000 modified the tariff structure thus creating the current tariff bands as reflected below:

- Capital goods 0-5%
- Raw materials 0-10%
- Intermediate goods 10-25%
- Finished goods 40%
- Strategic goods >40%

The country aimed at promoting the competitiveness of industry in light of international isolation. Low duties were applied to capital goods and raw materials, as well as to intermediate goods. However, the authorities placed high duties on the imports of finished and strategic goods to raise import revenues as they viewed such products as "sensitive" and thus requiring more protection than other goods.

Zimbabwe's tariff structure is quite complicated in the sense that, while the Common Market for Eastern and Southern Africa (COMESA) Common External Tariff (CET) proposes a maximum of 25%, some of the country's tariff rates are as high as 100% for some sensitive products, thus creating serious adjustment costs. Moreover, the COMESA CET has four bands while Zimbabwe has in excess of 20 bands. The complicated tariff structure thus poses huge challenges when it comes to harmonising with the proposed CET for the COMESA Customs Union. A similar challenge is anticipated when negotiating CET rates for SADC.

The government also liberalised the capital account through which all companies in Zimbabwe were free to borrow offshore for export-related activities. Borrowing through commercial banks as well as individual loans of up to US\$5 million without government approval were then possible. The government also allowed 100% foreign ownership in manufacturing, mining, quarrying and in mineral exploration as well as full foreign ownership in hotels for tourism.

The reforms also saw the establishment, in 1995, of the Export Processing Zone Authority (EPZA) of Zimbabwe. EPZA, as a quasi-government body, offered foreign investors a five-

year tax holiday followed by a 15% flat tax rate for the life of the project; exemptions from taxes (e.g. sales tax, capital gains tax and taxes on employee fringe benefits); duty-free imports of raw materials and capital goods; 100% repatriation of profits and liberal repatriation of proceeds from disinvestment; as well as exemption from taxes for EPZ firms.

Another institution, the Zimbabwe Investment Centre (ZIC), was also established in 1993. This was an investment promotion centre but it also filled the temporary role of controlling Foreign Direct Investment (FDI)¹⁰ – this was to end when the economy was to be fully opened. The ZIC was not very successful in promoting FDI due to the unfavourable investor climate that prevailed in the economy.

Scholars support the fact that a broad look at the performance of exports in the regulated, transition and liberalised periods suggests that the reforms may have stimulated export growth.

Specifically, the reform programme was successful in liberalising the economy, removing foreign trade and foreign exchange restrictions. However, many of the government fiscal targets were not met and continuing budget deficits may have contributed to the slowdown in growth in the late 1990s (that is in 1997 and 1998). According to a United Nations (UN) report (2008, p.126), manufacturing value addition growth more than halved following the rapid pace of liberalisation, including the dismantling of blanket import controls and two severe droughts in 1991/1992 and 1994/1995.

Relative manufacturing output declined from the start of the reforms. In 1990, the manufacturing sector contributed 22.8% of GDP. This contribution declined to 20.7% in 1996 and to 17.1% in 1998. The trade liberalisation measures have not always provided the incentives necessary for an expansion of exports. The government failed to coordinate and sequence trade liberalisation with other policy change (such as exchange rate adjustment) during this reform period. For example, trade liberalisation was implemented but not fiscal reforms (Bhalla *et al.*, 1999, pp. 85-93).

Many scholars cite that trade liberalisation caused a fall in output and employment. Total external debt more than doubled between 1985 and 1996. Although the GDP growth rate was impressive at 7.3% in 1996, in 1994 it was lower than that of 1985. Import liberalisation during 1990-91 led to a substantial increase in imports, accounting for a serious trade imbalance. Failure of major donors, including the World Bank, to disburse funds on target forced the government to raise short-term commercial loans accounting for the substantial increase in external debt (Bhalla *et al.*, 1999, pp. 85-93). The removal of protective measures under the government's economic structural adjustment programme (ESAP) caused

¹⁰ The Zimbabwe Investment Centre (ZIC) was set up to act as a clearing agency for foreign direct investment (FDI). All investment proposals with a foreign share holding were submitted to ZIC for approval and registration.

manufacturing output to contract: the sector's share of GDP declined from 25% in the 1970s to 18% in 1997.¹¹

Generally, and as set out above, ESAP's objectives were not realised. Instead, economic growth declined coupled with increasing unemployment, deepening poverty and reduced access to social services. ESAP's failure was, in turn, exacerbated by recurrent episodes of drought and flooding, the HIV and AIDS pandemic, the withdrawal of donor support and the isolation of the country from the international community. Presently, however, the Zimbabwean economy is very open on the trade front. This follows autonomous, bilateral and multilateral efforts to liberalise the economy and to integrate Zimbabwe into the world economy.

3. GOALS, OBJECTIVES AND STRATEGIES

The industrial and trade and investment policy framework which the government crafted in 1999 was broad and was overtaken by the changes and dynamics unfolding in the domestic and global economies. The government therefore found it imperative to revise this framework in order to guide the industrial and trade and investment activities in the economy for the period between 2004 and 2010.

This section mainly looks at the goals, objectives and strategies of the industrial and trade policies in Zimbabwe.

3.1 Goals, objectives and strategies of the industrial policy

As alluded to above, the industrial policy was slow to emerge to guide the country's industrial development. Prior to independence government used the Zimbabwe's Industrial Development Corporation (IDC) to spearhead industrial development by venturing into "green pasture" investment projects. Those projects were then sold to the private sector after having been proven viable; the proceeds of such sales were used to start other ventures (Zwizwai *et al.*, undated, p. 6). A shift occurred in 1999 and the current policy emerged when the economy was facing serious economic challenges and was designed for the period 2004-2010.

This industrial policy, recently put in place, seeks to generate particular industrial development objectives. It is a benchmark for development and is structured in such a way as to ensure that government is on track with its endeavours. It assists government in planning as the environment becomes more and more volatile.

The key objectives of the current industrial policy are to:

- Use available local raw materials,
- Enhance investment in value addition,
- Promote industries, strengthen clusters and revive closed companies,
- Promote local and foreign investment,
- Promote higher capacity utilisation and retooling,

¹¹ <http://www.iss.co.za/af/profiles/zimbabwe/Economy.html>

- Enhance skills development,
- Promote goods production for both the domestic and export markets.

An explanation of the objectives listed follows.

The first objective; that of using available local raw materials, relates to the fact that, for a country to develop, it needs to add value to its raw materials. Such value addition, which should be framed by improvements in competitiveness, would enhance the amount of foreign currency earned by exporting processed goods. As noted above, Zimbabwe's export basket is dominated by primary commodities which do not fetch much on the international market. Value addition is important in this context and to generate new employment and investment opportunities along product value chains. The latter point links to **the second key objective** of the industrial policy: that of enhancing investments in value addition.

The **third objective**, that of promoting industries, strengthening clusters and reviving closed companies links to the idea of bringing companies in the same line of business together in order to benefit in terms of services provision (the cluster approach). In this regard it should be noted that Zimbabwe's industrial sites are clearly demarcated as light and heavy industries. Reviving closed companies (those that had stopped operating) means expanding their ability to add value to local raw materials. Examples of closed companies that have been revived include Corn Textiles (now Modzone) and National Furniture Industries. One of the key mandates of the Industrial Development Corporation (IDC) is to rescue closing companies and those in distress. The Corporation has managed to rescue Olivine (makers of fats, edible oils, and soaps) which is now 49% owned by government and 51% owned by Cottco. The Corporation also spearheads industrial development by creating new wholly owned or joint ventures; for instance, the Corporation has a joint venture called Surface Investments which specialises in oil pressing from soya/cotton seeds.

The promotion of higher capacity utilisation and retooling links to low capacity utilisation. With most manufacturing companies operating below 20% capacity, little is being done to add value for the local and export markets. Serious foreign currency shortages have been haunting the industry over the last 10 years and this has constrained the capacity to produce as firms could not afford to buy new equipment or spare parts for production purposes. Thus, one of the objectives of Zimbabwean industrial policy is to counter and reverse this scenario. Moreover, for the industry to function efficiently there is need for skilled manpower and training institutions such as polytechnics and universities to operate and to develop human capital and to contribute to the objective of skills development.

The policy prioritised the following industries; agro-processing, motor industry, metals/steel, electronics, pharmaceuticals, cement, fertilizer, jewellery, construction and agro-chemicals.

The following are the key strategies laid out in the country's industrial policy:

- Incentives for domestic production,
- Concerted efforts towards innovation, upgrading of technology and value addition,
- Rationalisation of fiscal incentives for industrial development,

- Determining causes of distress and reviving industries under stress,
- Making adequate financing available to the productive sector,
- Making land available for development of industrial parks,
- Simplifying rules, regulations and procedures so as to remove additional constraints on the smooth functioning of the industrial sector,
- Establishing sub-sectoral task forces to spearhead industrialisation.

3.2 Goals, objectives and strategies of the trade policy

After the attainment of independence, the government protected the economy through controls but the economy failed to grow and the market was distorted. Trade liberalisation was seen as providing the solution to set the economy on a faster growth path. The Bretton Woods institutions also influenced the government to reform the economy, including the trade regime. In addition, trade liberalisation was influenced by the advent of the WTO and other regional initiatives such as the COMESA and SADC of which Zimbabwe is a member. It was also seen as imperative to open up the economy to address acute foreign currency shortages and balance of payment problems.

Zimbabwe's trade policy has been largely influenced by regional and multilateral trade arrangements as well as bilateral agreements and autonomous structural adjustment programmes supported by IMF and World Bank.

The country's trade policy has largely been oriented towards commitments to autonomous trade liberalisation; devotion to regional trade liberalisation as building blocks towards multilateralism; seeking increased market access for their exports in the world markets through the WTO; utilisation of preferential market access currently available from the European Union (EU); tariff rationalisation, reduction and unification; exports led growth and the maintenance of open markets abroad and the use of trade defence instruments in place of non tariff barriers (TRADES Centre, 2009, p.185).

Because the country has no trade policy document, its trade policy provisions are summarised and incorporated in the industrial policy document. However, in order to ensure increased exports, the country came up with a National Export Strategy. This strategy acknowledges the dynamics of the international trading system and seeks to take advantage of the provisions of the regional and international trading arrangements within SADC, COMESA and WTO.

The key objectives of the national export strategy are:

- To achieve a shared vision on export-led growth,
- To promote investment growth,
- To enhance exports,
- To promote local value addition,
- To consolidate existing markets and diversify into nontraditional markets,
- To enhance the competitiveness of Zimbabwean products on the regional and international markets,
- To develop an export culture and positive change of attitude among the business entrepreneurs, and
- To exploit comparative advantages and develop new industries.

3.2.1..National Export Strategy

Zimbabwe does not have a trade policy document and hence the country's trade policy is not clearly defined. This is also highlighted by Hurungo (2007, p.3) who argues that that the country lacks a properly laid out trade policy document or framework for a specific period in which trade objectives, targets, policies and linkages with other macroeconomic growth and development targets are clearly laid out and linked. Nevertheless, one finds elements of a trade policy in place in various policies documents (e.g. annual fiscal budgets, industrial policy, Ministers' pronouncements etc.). Still, as noted above, the trade policy provisions in the industrial policy are very scanty for it to be adopted as it is.

Zimbabwe's trade policy, as espoused in the industrial policy document, aims to support increased value addition as well as diversification of the export basket. The policy aims to consolidate the existing markets and to diversify into non-traditional ones.

In order to boost the exporting of various goods, the government put in place a national export strategy with comprehensive policy measures the main thrust of which is to lead towards an effective export promotion package. This strategy is the culmination of extensive consultations between the public and private sectors. "Its vision is to make Zimbabwe a major exporter of value added goods and services and, ultimately, be self-sufficient in foreign currency requirements from export receipts." Government of Zimbabwe (undated). The main goal is to increase the level of exports by over 40% per annum during the 2006 to 2010 period. The predominance of unprocessed primary commodities in the country's basket of exports has largely constrained its capacity to maximize export earnings. Hence the export strategy places emphasis on the export of value added products and services.

The National Export Strategy document contains a matrix that outlines both immediate and medium term strategies with spelt out activities, expected outcome and which identifies the authorities responsible for carrying out the particular activities. Immediate strategies in the National Export document include the implementation of the *Look East Policy*¹²; toll manufacturing; development of a country product matrix; concessionary funding; posting of trade promotion officers; trade and investment missions; trade facilitation; promotion of exports by media; quality certification and promoting and implementation of those programmes that support exports by micro, small and medium enterprises.

Medium-term strategies include product beneficiation; establishment of a national cargo carrier; establishment of an insurance fund for exporters; an export marketing assistance scheme; establishment of a national productivity centre; export education; export of labour services; establishment of retail shops in regional and international markets; infrastructure development; establishment of an air cargo hub and establishment of an Export-Import Bank (Eximbank)

¹² The Look East Policy, a diversification strategy of the country's New Export Strategy is a deliberate effort made by the government to diversify Zimbabwe's exports to non traditional markets such as the South Asia and the Far East. The policy is still in place.

4. LINKAGES BETWEEN THE INDUSTRIAL & THE TRADE POLICIES

An industrial policy must focus on production of goods for both the domestic and international market while a trade policy must provide a platform for the competitiveness of those goods, both on the domestic and international markets.

The post-independence trade policy, evidently, did not seek world market penetration for industrial products. Instead, the trade policy thrust sought three things: accessible markets for agricultural raw 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, publicity and attraction of foreign investment (Zwizwai *et al.*, undated, p. 11).

The new thrust of the trade policy – as it is linked to the industrial policy – is now distinct. It is on the export promotion of higher value added manufactured goods. This is also enunciated in the aim of the new export strategy which is to find new markets for manufactured products in richer and fast-growing economies. The new export strategy's major objectives are to achieve a shared vision on export-led growth; promote investment and development; enhance exports; promote local value addition; consolidate existing markets and diversify into nontraditional markets; enhance competitiveness of Zimbabwean products on the regional and international markets; develop an export culture and positive change of attitude among the business entrepreneurs; and to exploit comparative advantages and develop new industries (Government of Zimbabwe Industrial Development Policy, undated, p.25).

The National Export Strategy serves as the vehicle for the generation of much needed foreign exchange. In essence it seeks to address the constraints throughout product value chains, with a view to enhancing the competitiveness of Zimbabwe's international exports. Issues such as inculcating an export culture in the productive and entrepreneurial spheres, capacity building and infrastructural development, strengthening of institutional capacity, export incentivisation, trade promotion and trade facilitation and quality control management, take centre stage in the country's National Export Strategy.

One of the linkages between the trade and industrial policies is that the former is one of the strategies for implementing the latter. The industrial policy prioritises both domestic and foreign trade as instruments for industrialisation and hence these two cannot be divorced. The role of the business community in growing exports was highlighted in the new export strategy document as being extremely critical, as it is this community that produces the goods and services to be traded across national boundaries. In this regard, the National Export Strategy recognizes the business community as a full partner in development, and will

operationalise a continuing and constructive dialogue to enhance the contribution in all aspects of cooperation and development.¹³

The two policies used to fall under the same ministry, but since the advent of the inclusive government, a new ministry responsible for the trade policy has been formed – that is the Ministry of Regional Integration and International Cooperation –. This leaves the Ministry of Industry and Commerce to guide the industrial policy.

A shock in one of the policies directly impacts on the performance of the other. For example, due to the absence of local credit lines – and in an environment where international lines of credit are closed – numerous companies that have been classified as unreliable on the international market recorded a decline in exports in 2007. Generally, failure by firms to deliver their orders has led foreign clients to shift to exports from the east (CZI manufacturing survey, 2008, p.22) and, in turn, non tariff barriers in the region have significantly contributed to the poor export performance of the manufacturing sector as exports from Zimbabwe were shunned simply because of their country of origin. Controlled exchange rate systems also exacerbate the problems, as did problems with access to raw materials etc.

Currently, the country does not have a trade policy document. When government manages to secure funds in the near future, there is a need for joint discussions between the policy makers and the relevant stakeholders to craft a fully fledged trade policy that that will be linked to the industrial policy, since one cannot operate without the other. The current industrial policy lacks detail and needs indicators and clearly-defined targets. Government needs to come up with either two separate policy documents that capture all the requisite details, or develop sufficiently the trade policy provisions that are currently in the industrial policy. The linkages have to be both at policy making levels and company levels. If companies are assisted in their production, there must be equal assistance to export. In the recent past, efforts have been concentrated on production rather than on exports.

4.1 Linkages between the two policies: the case of the textiles & clothing industry

The industrial policy identifies priority areas. These are strategic sectors which the policy makers feel can turn the economy around. The authorities deliberately

“pursue a policy that seeks to promote value addition, among others, in electrical and non-electrical machinery, agricultural equipment, agro-processing, mining and mineral-based industries, chemicals/pharmaceuticals, wood and furniture, textiles and clothing, and the motor industry.” (Government of Zimbabwe (undated), “Industrial Development Policy, 2004-2010”)

This part of the paper focuses on documenting the linkages between the trade and industrial policies in the case of the textile and clothing industry under the agro processing sector.

¹³ The linkages between the two policies are also attested to by the direction of exports which is primarily a function of bilateral exchange rate movements. Companies will increase exports into a country against whose currency the Zimbabwe dollar has depreciated most and reduce exports to countries against which the Zimbabwe dollar has appreciated (CZI manufacturing survey, 2008, p.22).

(Cotton lint, ferro-alloys, iron & steel, and textiles dominate the country's manufactured exports.)

Prior to liberalisation, Zimbabwe's textile industry was competitive even against South Africa, the reason the latter refused to renew the bilateral preference textile agreement with the former in 1996 based on the initial provisions. This bilateral agreement dates back to 1964 and benefited Zimbabwean clothing in particular. In 1992 South Africa faced serious and growing flood of imports from the Far East and raised its tariffs on clothing from 15% to 75%. This was not well received by Zimbabwe which had a tariff preference of only 5% and cited the tariff rise as too high. It therefore seriously called for the reduction of the tariff (Maasdorp, undated). In turn, South Africa offered revised access into its market based on 75% local content. This again raised complaints by the Zimbabwean industrialists as they imported the raw materials South Africa argued that the cheap products from the rest of the world could still find their way into South Africa through Zimbabwe. Through persistent negotiations, South Africa eventually agreed to reduce tariffs on Zimbabwe clothing to 30% from September 1996 and then to 20% by 2000.

Beginning with the economic reforms of the 1990s, the industry faced serious challenges that led to closure of large players in this sector and resulted in job losses. Hurungo, (2007, p.9) cites trade liberalisation of the 1990s and the *Look East Policy* as sources of deindustrialisation in this sector. He argues that the *Look East Policy* had an exacerbating effect that saw an influx of cheap textiles from China leading to the closure of big firms such as David Whitehead (previously owned by LONRHO). The sector was also hit by the expiry of the South Africa-Zimbabwe bilateral agreement in 1996 as well as by the end of the WTO Agreement on Textiles and Clothing in December 2004. Table 3 illustrates the employment impact of the above factors – including autonomous liberalisation on the textile and clothing sector – namely a near 50% reduction in employment levels between 1990 and 2005.

DPRU (2000, p. 3) in its policy brief noted that this sector was indeed a shrinking subsector. For example, in 1991, there were 284 registered clothing companies and 50 textile companies. By the end of 1999 a total of 115 firms in the clothing sector and 6 textile firms had shut down, representing a 44% and 12% reduction in the number of clothing firms in the respective sub-sectors. The capacity utilisation levels across the industry were low, averaging between 42 and 50 percent at the end of 1999. Similarly there were very low levels of FDI as most companies in the clothing and textile sector were locally owned (90%).

Table 3. Employment levels for the textiles industry

	Employment		Job Losses
	1990	2005	1990 to 2005
Textiles	24 000	11 522	12 478
Clothing	27 000	17 000	10 000
Sector Total	51 000	28 522	22 478

Source: Hurungo (2007) as adopted in G. Kanyenze (2006), p.10.

Cheaper Chinese imports have affected the whole textile production and sales chain from cotton growing and yarn production to ginning and clothing manufacture. While cheap

Chinese clothes are affordable to the majority of the people (an important point given the declining income level), upmarket departmental stores operating in Zimbabwe, such as Edgars, Barbours, Meikles, Greenters and Clicks, have been the major victims of stiff competition from the influx of cheap Chinese clothes. Consequently there have been calls by the private sector to reserve the clothing retail sector for local investors.

The textiles industry has been facing challenges that have negatively impacted on its performance. These include shortages of the foreign currency needed to import raw materials and machinery. Added to this were the high import duties of raw material and machinery, thus negatively affecting capacity utilisation in the cotton industry. The managed exchange rate made exports and controlled prices on cotton lint and cooking oil expressed from cotton seeds unviable.

Whilst Zimbabwe produces high-quality cotton for the export market and has a guaranteed market, the sustainability of foreign markets will depend on domestic macro- and micro-economic policies (and relative prices and incentives). Sustainability of Zimbabwean farmers relies on a market-related exchange rate and a stable economic environment characterised by low inflation (ZEPARU, 2006). The management of the exchange rate by government acted as a penalty to exporters, so much so that viability was significantly threatened. The country has high export potential but the cotton industry needs to be developed in terms of input provision and the maintaining of quality standards. Potential can also be exploited by investing in ginning, spinning, and weaving and increasing yield per hectare. International cotton subsidies have significantly negatively impacted on the cotton industry, on input credit schemes, on capacity utilisation, on the obsolescence of ginning equipment and on recapitalisation (ZEPARU, 2006).

4.2 Role of the private sector in policy making

In order to fulfil the vision of industrialisation, close co-operation between government, business and labour is imperative. Industrial policy is founded on the principle of tripartite participation in decision making, goal setting and corresponding tripartite acceptance of responsibility for the successful implementation of the strategy.

Broadly speaking, it can be argued that there is a vibrant capacity in policy-making in both the private and public sectors in the economy. Zimbabwe has a vast stock of experienced professional and technical people who are well qualified to develop sound policies geared towards improvement of the economy (Zwizwai *et al.*, undated, p. 23). This is augmented by expertise vested in Civil Society Organisations (CSOs) around the country, although these professionals are continuously leaving the country for greener pastures.

The government consults with the private sector in the policy formulation process and the sector provides information that feeds into the policy framework. They identify policy gaps and the extent to which policies that are already in place have been implemented and they provide feedback. For example, the government had put in place a policy that required the retention of a certain percentage of foreign currency earned by exporters. The private sector complained that the retention percentage was too high and it was scrapped.

The role of the private sector is recognised in industrial policy. In the policy document, the government has been tasked with creating an enabling environment and make appropriate policy interventions. The same document spells out that the private sector will identify, recommend and implement strategic action plans on a sub-sector by sub-sector basis (cluster initiatives) and create employment conditions that recognise and respect the contribution of labour, are motivational and provide rewards commensurate with performance. Labour was tasked to support the industrialisation process by committing itself to the principle of increased productivity and international competitiveness.

Zimbabwe has embraced a Malaysian philosophy of “smart partnerships”. Smart partnership is based on a deliberate policy of co-operation between government, the private sector, labour, and civil society aimed at transforming a country into a winning nation. “Smart” stands for objectives which when pursued are “sustainable, measurable, achievable, realistic and timely”.

In 1997 the country established a National Economic Consultative Forum (NECF) whose role has been portrayed as a key-brainstorming platform that would come up with ideas to solve the country’s current problems. Its creation - as highlighted in the NECF brochure - was based on the premise that no particular sector or group of individuals has a monopoly on the skills or competencies necessary to grow and develop the economy.

The NECF brochure also stresses that co-operation between the social partners should “engender a spirit of co-operative governance and create smart partnerships as a means of enhancing national consensus and coalition-building in order to promote the socio-economic development process...”¹⁴ However the government has largely worked outside the spirit of the NECF over the years. It has, nevertheless, in conjunction with its social partners, launched the National Productivity Centre at the Scientific Industrial Research and Development Centre to promote research as one of the efforts to address de-industrialisation in the country.

The NECF has a number of taskforces dealing with areas such as media and publicity, spatial development initiatives, gender, anti-corruption and indigenisation. There are also taskforces for human resources, information technology, the agrarian reform environment, industrialisation, youth, and tourism. Nevertheless, the work of these taskforces has not been clear as there has been much government interference in them.

The government through the then Ministry of Industry and International Trade set up workshops during the consultative process. For example, in coming up with the sensitive lists for the SADC FTA or the Economic Partnership Agreement (EPAs) negotiations, the private sector generated a great deal of input.

4.3 Research and policy making

¹⁴“Government spurns partnership with business” <http://www.thezimbabweindependent.com/index.php/opinion> (date accessed 13 May 2009)

Local and foreign consultants are used in areas where government lacks capacity for policy formulation. This type of support system is usually called for when the government is undertaking new policy measures in which ministries do not have the required capacity (Zwizwai *et al.*, undated, p.28).¹⁵

In Zimbabwe, policy-making is further backstopped by a range of institutions. One of these is an African Capacity Building Foundation (ACBF) funded policy research institution called Zimbabwe Economic Policy and Research Unit (ZEPARU) which became operational in 2004. Its core business includes policy analysis, research and training. Policy research is either commissioned (demand driven) or proactive (supply driven).¹⁶ The country's ministries of Finance, Economic Development and Agriculture as well as the Reserve Bank of Zimbabwe commissioned ZEPARU to undertake various studies. Dissemination workshops of the findings were then conducted for the various relevant stakeholders. These research outputs have been useful in formulation of monetary policy statement to the Government Task Force on Value Addition and Import Substitution as well as to the private sector. ZEPARU sits on various policy-making committees. In parallel, as part of capacity building, it has sponsored government officers as well as lecturers from the University of Zimbabwe's Economics Department to further their education. It also offers technical advice on the development of economic models in Zimbabwe.

The IDC is another research institution. It does research on behalf of government on different sectors of the economy e.g., in terms of the challenges that these sectors face, and forwards recommendations for new policies. The Confederation of Zimbabwe Industries (CZI) is also critical as it carries out annual surveys for the manufacturing sector. The major goals for this exercise are to guide policy makers to craft evidence-based objectives and consistent policies, to assist stakeholders with an interest in the sector to make informed investment and lending decisions, and to assist the CZI members with empirical portrait of their sector (CZI Manufacturing Survey, 2008, p.4).

Next, Non Governmental Organisations (NGOs) such as the Trade and Development Studies Centre have been instrumental in informing policy in Zimbabwe. The organisation has, for example, carried out an impact assessment study on the impact of Economic Partnership Agreements on the economy of Zimbabwe. This was an EU-funded project for the Government of Zimbabwe. The organisation also carries out occasional policy papers and briefs to inform government. There are many others, such as partners in the development sector, that work closely with the government to guide and inform policy.

Efforts are also made through regional conferences on bilateral, regional and international trade regimes and the main stakeholders to these conferences, including non state actors as

¹⁵ A number of research studies have been undertaken for the government with the use of both local and foreign consultants. However, the government does not always make use of the research results: most of the results used by government tend to be from government-initiated research work (Zwizwai., undated).

¹⁶ Zimbabwe Economic Policy Analysis and Research Unit (ZEPARU): Achievements and challenges http://www.acbf-pact.org/newsletter/.../projects_programs

well as policy makers. Added to these are capacity building activities targeted at the policy makers in the area of trade and trade-related issues.

4.4 Policy instruments/incentives in Zimbabwe

The government employs tariffs, safeguards and non-tariff barriers as strategies for getting into the market. It has also introduced price controls with the aim of protecting consumers. Other measures such as antidumping and countervailing measures have been put in place to protect the emerging industries, create employment and raise revenue.

4.4.1 Investment incentives

Investment incentives are well outlined in the Zimbabwe Investment Authority investment opportunities guide. Zimbabwe's system of investment incentives has evolved considerably over the years, reflecting the new openness to inward investment. Investment incentives are set in order to attract both foreign and domestic investment. Zimbabwe guarantees legal protection for all investors through its Constitution, which guarantees the right to private property and prohibits expropriation of private property without adequate compensation (Zimbabwe Investment Authority, 2008).

Zimbabwe has special incentive packages for investors who venture into remote places of the country, tourism zones and mining areas. In order to encourage commercial and industrial development in remote areas of the country, the government-selected growth point areas, and investors operating in these areas, are charged favourable tax rates and are given an investment allowance over a specified period of time. The government offers specific incentives for large, export-oriented mining projects through its Special Mining Leases Scheme.

The country offers incentives in the tourism sector and has, as such, designated nine zones for special promotion. These are identified as Tourism Development Zones. Investors in these designated places will enjoy tax holidays.

4.4.2 Export Incentives

The government places great emphasis on export enhancement. The country has, therefore, created various export incentives and put these at the disposal of exporters. These incentives are put in place following consultation with all the relevant stakeholders, the main idea behind the incentives being to create an enabling environment for exports.

4.4.3 Domestic Trade Incentives

The government gives incentives to companies that produce for the domestic market. This is viewed from the perspective that consumption of local products can induce industrialisation.

Below is an outline of normal tax levels for corporate organisations in Zimbabwe:

- Corporate tax rate 30%
- Aids levy (on tax payable) 3%

- Capital gains tax 20%
- Shareholders' Tax on dividends
 - Listed shares 15%
 - Unlisted shares 20%

For investment purposes, the government offers the following as incentives for companies located at Growth Point Areas: New manufacturing projects are taxed at 10% while new Infrastructure Projects are taxed at 15%.

For BOOT and BOT¹⁷ Arrangements the tax rate is:

- First five years 0%
- Next five years 15%
- Third five years 20%
- Thereafter 30%

Industrial Park developers are exempted from tax in the first five years and are charged 10% thereafter. Taxable income of a tourist facility in an approved Tourism Development Zones is zero for the first five years and 15% thereafter. Taxable income from a manufacturing or processing company, that exports 50% or more of its products, is 20%. A holder of a special mining lease is charged 25% on income while a company or trust derived from mining operations is charged 15%.

4.5. Extent to Which Trade and Industrial Policies Depend On Regional Integration

COMESA and SADC

“are implementing regional integration programmes in trade and economic development covering the establishment of free trade areas, customs unions, monetary union and common markets as well as regional infrastructure development programmes in transport, information communications technology and energy as a first step and contribution to the realisation of the continental integration leading to the establishment of the African Economic Community.” (Tripartite Summit Report, 2008).

The SADC grouping has a range of platforms that guide the development of policies. Industrial players meet once a year to appraise each other in terms of development. The grouping has also come up with an industrial protocol which sets guidelines on developing industries in the region. Countries try to fit their industrial policies into that framework. The region is also planning for the industrial modernisation programme in order to raise funds for development. This brings about synchronised policies, thus fostering regional integration.

Article 29 of the SADC Trade Protocol guides the member states on coordination of their trade policies. It states that

“Member States shall, to their best endeavour, coordinate their trade policies and negotiating positions in respect of relations with third countries or groups of third countries and international organisations as provided for in Article XXIV of the Treaty, to facilitate and accelerate the achievement of the objectives of this Protocol”.

¹⁷ BOOT and BOT is a public private partnership whereby a private company with financial resources builds, operates and transfers public infrastructure, e.g., roads, factory shells etc, back to government after recouping the injected capital plus the profit. Where ownership applies, it will be only for an agreed period of time.

Zimbabwe has benefited from SADC and COMESA through sourcing raw materials for its industry. The regional groupings on the other hand have created markets for the country's products and this enables Zimbabwe's industry to take advantage of economies of scale given by the bigger market.

Both the industrial and trade policies are region dependent. For Zimbabwe, an export-led development requires markets. Getting into deeper regional integration with low capacity utilisation, however, will compromise the country's potential.

At this point in time, the country relies mainly on South Africa for its raw materials. South Africa and Zambia offer the biggest markets for Zimbabwe's products in the region. Regional integration arrangements are strategic for a country like Zimbabwe which is land-locked and hence requires close ties with regional neighbours to access the main export/import routes. Some of these linkages are historical. For example, Zimbabwe and South Africa became trade partners as well as industrial suppliers for southern and central Africa more than two decades ago. The two economies began negotiating for a trade agreement as far back as in the 1960s. In 1964 a "Preferential Trade Agreement" was signed, covering a range of agricultural, semi-finished and industrial products, especially those that the then Rhodesia could have on the South African market. The government also carved out another market outlet in Botswana, which remained the second largest close trading partner, particularly long after independence (Zwizwai *et al.*, undated, p.8).

The country also exploited the Rhodesia and Nyasaland Federation that lasted for ten years from 1953 as another nearby market. Market access was later extended to other countries like Zambia, the Democratic Republic of Congo (DRC), and even as far as Eastern Europe and Asia.

Zimbabwe's bilateral arrangements aim at freer trade and access to larger markets and economies of scale. Under the bilateral trade agreements, Zimbabwe has a preferential agreement with South Africa, the stronger trade partner in terms of values and diversity. Zimbabwe also has preferential bilateral agreements with Botswana, Malawi and Namibia and Zimbabwe.

Under the Zimbabwe/Malawi preferential agreement, the trade balance between the two countries has always been heavily in Zimbabwe's favour. The imbalance is due to the fact that Zimbabwe exports to Malawi manufactured goods like fertilizer, iron and steel, meal and flour. Malawi supplies Zimbabwe with basic agricultural products such as rice, pepper, sauce and oil seed.

The preferential bilateral agreements between Zimbabwe and Botswana, Malawi and Namibia exist within the context of other regional preferential arrangements to which these countries belong. All the four countries belong to SADC; Botswana and Namibia belong to Southern African Customs Union (SACU); and Zimbabwe, Malawi and Namibia are members of COMESA. Except for the rule of origin of 25% local content, COMESA's zero tariff regime is equivalent to the bilateral preferential regime for Zimbabwe, Malawi and Namibia. For Botswana in particular the SADC Trade Protocol arrangement would be

different from the bilateral regime in view of its different rules of origin and phased tariff reductions in some instances, but could eventually offer equivalent treatment. This situation poses a challenge to the trade policy implementation as bilateral agreements are continually being negotiated when the regional arrangements have been concluded and are being implemented.

Zimbabwe is a founder member of the WTO and has bound its tariffs for most agricultural products at a ceiling rate of 150%. Agriculture is the most tariff-protected sector with the applied Most Favoured Nation (MFN) tariffs varying from 0 to 100%. However, applied tariffs are substantially below the bound rates. Zimbabwe aligned its anti-dumping, countervailing and safeguard disciplines with those of WTO.

Zimbabwe was a beneficiary of the Lomé Conventions and, under ACP/EU partnership Agreements, enjoys duty free or preferential duties and export quotas for sugar and beef products in the EU market. Zimbabwe is currently negotiating an EPA agreement with the EU under the configuration of Eastern and Southern Africa (ESA).

Zimbabwe is party to GSP schemes with developed countries. Under Regional Economic Communities, Zimbabwe is a member of COMESA which implemented an FTA in 2000. Zimbabwe is, as noted above, also a member of SADC and implemented a tariff phase down process on 80% of its trade with the region between 2000 and 2008 under the trade protocol.

So far, the SADC countries have launched a free trade area that the country has been gradually implementing since 2001. In this case, member states' tariffs are reduced to zero on 85% of intra-SADC trade. Plans are for the remaining 15% to be reduced to zero by 2012. Zimbabwe being a member of COMESA also launched the customs union in June 2009. Member states were given three years to align their tariffs to the COMESA common external tariff. These two regional groupings have been making efforts to harmonise their trade policies, e.g. on trade facilitation, mechanisms of dealing with non tariff barriers, etc.

Manufacturing firms in Zimbabwe have welcomed the regional integration initiatives and the country is a signatory to *both* SADC and COMESA as noted above. Industrialists feel these two blocs present wider markets for their products, as well as better business opportunities. COMESA for instance offers a market of 420 million people with a GDP of \$267 billion and aims to eliminate tariffs, facilitating expansion of trade and means of technology transfer. Against this context is the fact that the manufacturing industry lacked access to international credit lines which undermined the performance of the industry. This was coupled with the negative perception the international community had of the country, a perception that affected export performance as Zimbabwean products were discriminated against based on their country of origin.

According to the SADC Secretariat, comprehensive consultations with the private sector and other Non State Actors (NSA) across the region have shown that deeper regional integration in the region is expected to lead to: increased domestic production; greater business opportunities; higher regional imports and exports; access to cheaper inputs and consumer

goods; greater employment; more foreign direct investment and joint ventures; and the creation of regional value chains.¹⁸

Zimbabwean traders feel that trading in the SADC region would be more beneficial if the rules of origin were more relaxed. They view is that restrictive Rules of Origin (RoO) are protecting the South African market since intra-SADC trade is skewed in its favour.

The SADC region has limited capacity to produce tradable goods and the big concern is whether the SADC FTA will assist member states like Zimbabwe to increase their supply capacity. For Zimbabwe, the SADC region has both pull and push factors when it comes to regional integration. However, the country's key trading partners are found in the region (Table 4 shows this for the country's top export destinations in 2005).

Table 4. Zimbabwe's top export destinations in 2005

	Export Destination	Export Earnings (US\$)
1	South Africa	145,556,392
2	Zambia	53,991,167
3	Botswana	33,572,346
4	Malawi	26,504,763
5	Mozambique	21,635,406
6	United States of America	16,198,230
7	Namibia	15,567,026
8	Italy	13,034,637
9	United Kingdom	12,312,058
10	Netherlands	12,136,685

Source: (Masiiwa, Table 1, 2007, p.2).

The SADC region is a relatively developed market. Generally, infrastructure in SADC countries (road networks, railways, ports, handling/storage facilities) are more developed than in COMESA countries. This is supported by an enabling environment, composed of efficient support services (banks, insurance, health, education) and reliable legal framework (Masiiwa, 2007). Moreover, geographically, SADC member states are closer to Zimbabwe than some COMESA member states, e.g. those countries north of the African continent. Proximity of the SADC States reduces transaction costs to Zimbabwean business when it comes to the movement of goods and services.

Zimbabwe shares a common history and political solidarity with the SADC member states. The socio-cultural background in SADC is moreover found to be relatively homogenous. This facilitates better understanding of business ethics in the region by the Zimbabwean business community than the diverse culture that prevails in the COMESA market.

The SADC FTA brochure¹⁹ cites that the FTA will create larger markets with growing economies. The SADC FTA creates a regional market worth US\$360 billion with a total

¹⁸ <http://www.sadc.int/fta>

¹⁹ <http://www.sadc.int/fta>

population of 170 million and includes economies growing by up to 7% a year. When Angola and the Democratic Republic of Congo join the FTA a further US\$71 billion and 77 million people will be added to the SADC market. This, however, needs to be looked at closely because most of the ventures that contribute significantly to SADC GDP belong to foreigners. Moreover, income in these countries is not equitably distributed. The region has the highest indicators of poverty and more needs to be done to eradicate poverty in order for the benefits of regional integration to be realised.

For the private sector in some countries, the SADC FTA presents a regional market with more than ten times the spending power of the domestic economy. SADC is also a significant market for certain key export items. The brochure also cites that great job opportunities are available through the FTA. With 'large' opportunities for trade, new business activities and the resulting expansion of domestic production, both business and other NSAs could witness a net increase in employment. In the case of Zimbabwe, this is yet to be realised when the economy comes out of the economic meltdown and strategically repositions itself to take advantage of the SADC FTA.

The SADC brochure also states that with lower barriers to trade and greater competition in the region, business expects the FTA to lead to cheaper inputs, enhancing competitiveness. This will be mostly realised once the non-tariff barriers have been eliminated. The SADC FTA allows for countervailing measures (trade defence mechanisms) to ensure fair trade and these include safeguards, infant industry argument and antidumping duties.

As the SADC FTA was launched, tariffs were substantially reduced. This does not tally with non-tariff barriers which are still high in the SADC region, preventing the Zimbabwean industries' ability to tap all the opportunities at their disposal in this region. For example, Dairibord Zimbabwe Limited's milk faced restrictions entering into the DRC market in 2003 where the importing countries cited issues of standards. Zimbabwean business people are discouraged by theft from theft in South Africa, especially when goods are in transit to and from the country. The clearing process is long, costly, bureaucratic and time consuming. Although most of Zimbabwe's export destinations are in the SADC region, more of this trade occurs through bilateral trade arrangements than under the SADC certificate of origin. This is mainly because of the stringent rules of origin and the historic links that have been created between member states. SADC RoO are administratively cumbersome and are product specific.

In order for the region to increase trade, it needs to improve productive capacities, competitiveness and infrastructure. Non tariff barriers need to be eliminated. The region has to critically prioritise the creation of a conducive investor climate in order to attract both, domestic and foreign direct investment.

Although Zimbabwe's economy has been open, it has not benefited fully from the liberalisation process. Fundamentally, production and export patterns have not changed – exports remain dominated by cotton, tobacco and mineral products. Instead, liberalisation has ushered in waves of stiff international competition, sharply affecting manufacturing.

Indeed, industries such as textiles, industrial goods, and agro-processing have faced increasing challenges from imported equivalents, without having received increased market access abroad (because of non-tariff barriers and in some instances non competitiveness). This has led, in many cases, to firm closure and/or to restructuring in these sectors (de-industrialisation).²⁰ In the recent past a Zimbabwean household would have been using a range of imported basic consumer goods – e.g., cooking oil, soap, toothpaste, candles, matches etc, that were previously manufactured in the country.

5. PERFORMANCE INDICATORS AND ANALYSIS

5.1. Performance indicators / targets set to assess industrial policy

Performance targets or indicators are not stated in the main policy document that guides Zimbabwe's industrial policy. This sub-section provides a summary of the extent to which the industrial policy has been implemented. The extent of the implementation was based on the areas that had been prioritised as implementation methodology. The implementation methodology of the industrial plan includes parastatal repositioning; information and communication technology (ICT); infrastructure development; human resource development; trade policy; investment promotion; spatial development initiatives (SDIs); industrial finance; distressed industries; small and medium enterprises; price and income stabilisation; as well as entrepreneurship development. The policy lays out what needs to be done in each and every methodology.

The summary was derived from interviews conducted by the author with IDC officers, government officials, private sector representatives, literature review as well as from presentations by IDC staff, CZI and others at various fora.

5.1.1 Parastatal repositioning

1. Industrial Development Corporation (IDC)

The Industrial Development Corporation was mandated to carry out industrial opportunity research and to disseminate the information. Work on this has been initiated and reports on the cotton, motor componentry and fertiliser industries have been completed, while another one on the leather industry was nearing completion at the time of writing of this report. The IDC was also mandated to start a motor componentry manufacturing industry. This has not yet taken-off, though a tractor project is pending.

The IDC was supposed to facilitate the implementation of industrial projects through the provision of factory shells. This is being done by Sunway City, but at a slow pace due to financial constraints. The IDC was mandated to provide fertiliser and lime, as well as opportunities to the agricultural sector through agro-processing business. The IDC implementation of the mandate was effected only to a limited extent due to unavailability of foreign currency.

²⁰ <http://www.seatini.org/Articles/zimbabwe.html>

2. Scientific and Industrial Research and Development Centre (SIRDC)

SIRDC operations have been constrained and the proposed National Productivity Centre has not yet been established.

3. Agricultural and Rural Development Authority (ARDA)

ARDA was supposed to produce and supply the IDC with agro-processing inputs and also to mobilise small-scale farmers into the agro-processing of fruits, vegetables, tomatoes etc. ARDA has however been facing operational constraints resulting in output reduction since 2005.

3. Zimbabwe Iron and Steel Company (ZISCO)

The company was supposed to supply steel products to the construction, agriculture, mining and manufacturing industries, as well as to add value to its steel products. Its capacity constraints (such as working capital, equipment, power cuts etc) have seen the country importing even products that it has the capacity to make and there has been no value addition in the sector.

4. Utilities

Zimbabwe Electricity Supply Authority (ZESA), Hwange, National Oil Company of Zimbabwe (NOCZIM), Zimbabwe National Water Authority (ZINWA), telecoms have not performed as envisaged due to foreign currency shortages and due to unviable tariff constraints among others. The poor performance of these parastatals has had negative effects on Zimbabwe's industrialisation.

5.1.2 Information and communication technology (ICT)

The industrial policy recognises ICT as a key agent for transforming human life. The major strategy followed has been to make ICT widely available to as many people as possible. The President has, for example, made efforts to make computers available to schools, and an ICT policy was launched in 2007. More work still needs to be done however, including expanding the electricity grid/alternative energy, for the technology to be accessible to every Zimbabwean.

5.1.3 Infrastructure development

Infrastructure development is recognised as critical to industrial growth. Strategies recommended and implemented so far include turning the Zimbabwe Development Bank (ZDB) into the Industrial Development Bank of Zimbabwe (IDBZ), though its effects are still to be felt in the larger economy. The policy also recognises the need for partnerships with the private sector to make good government's lack of resources through BOT/BOOT projects. More needs to be done in this area, for example on road construction and maintenance given

the current poor state of Zimbabwe's roads. The air cargo hub at Harare's international airport needs to be expanded, especially given the regional integration initiatives underway.

5.1.4 Human resource development

The policy recognises human resource development as key to quality and productivity in the policy. Educational institutions are supposed to work with industry for the benefit of industry and this has been done to some extent, e.g. by the National University of Science and Technology (NUST). The major stumbling block has been the deteriorating macro-economy causing a continuous brain drain from both the industry and the training facilities, at high and unskilled levels.

5.1.5 Trade policy

The trade policy recognises the need to add value to exports and to diversify the export basket and the markets. The country has expanded its market to include the east through the 'Look East' Policy. However, value addition and export basket diversification has been limited by foreign currency and raw material shortages as well as resultant use of old technology. The perceived and actual country risk is also militating against an expansion of international trade. There are no tangible/effective export incentives in place for industry. The proposed export promotion strategy in the industrial policy was put in place, but its implementation has also not been good. ZimTrade has been facilitating the participation of local companies in trade fairs and the creation of new markets in the country and in the international fora.

5.1.6 Investment promotion

The government was supposed to simplify investment rules, regulations and procedures and it was for this reason that the Zimbabwe Investment Authority (ZIA) was formed out of EPZA and ZIC. The creation of a conducive environment with good physical infrastructure, skilled and unskilled labour, technological and scientific research and development facilities has been a challenge. The creation of a financial support infrastructure through the private sector has also been confronted with a range of challenges.

On a positive note, the Zimbabwe Investment Authority approved 84 investment projects worth over US\$ 1.6 billion in 2007, despite the economic challenges at the time. The projects are across key sectors of the economy (non-real sectors, services, transport and construction are also covered). Amongst the investment projects, 16 were foreign, five were local and 63 involved joint ventures. In joint ventures, locals are entitled to a 51% controlling stake in foreign companies.

The issues of value addition and import substitution when approving the projects are prioritised. Government – through various statutory arms such as the Zimbabwe Investment Authority, ZimTrade and the Reserve Bank of Zimbabwe - is making joint efforts to increase export performance and to attract investment.

During the 2003 – 2006 periods, Zimbabwe approved significant investment projects from China, the United States of America (USA), the United Kingdom (UK) and South Africa. These were in manufacturing, tourism, services, mining and transport. Investment from Zambia into Zimbabwe was in the transport industry in the form of cargo haulage and in the manufacturing of packaging material and scrap metal.

5.1.7 Spatial development initiatives [SDIs]

The industrial policy identified the development of the SADC development corridors as a way of achieving SDIs. However, these largely remain at the planning stage. The only work done has been on the Trans-Limpopo SDI through the Limpopo Transfrontier Park. The country really needs to invest in inter-regional development corridors to take advantage of regional integration efforts.

5.1.8 Industrial finance

This has been channeled mainly through the Reserve Bank of Zimbabwe's concessionary quasi-fiscal programmes, including the Agricultural Sector Productivity Enhancement Facility (ASPEF) and the Basic Commodity Supply Side Intervention (BACOSI). There were proposals to set up a Technology Upgrading Fund to enable companies to retool, recapitalise and buy new technology which did not take off.

5.1.9 Distressed industries

The strategy was to set up an Early Warning Unit within the Ministry of Industry and International Trade to sound the alarm bells. The government has been active in this area within its financial limits and a Distressed Companies Fund was set up and disbursed through the Small Enterprise Development Cooperation (SEDCO) and the Industrial Development Bank of Zimbabwe (IDBZ). Companies that were rescued include Last Hope, G&W, Zimphos and others from the IDC stable, as well as other industry players.

5.1.10 Small & medium enterprises

The strategies identified include cluster development and associations, development linkages with larger companies, the setting up of a Business Links office and facilitation/provision of factory shells by IDC, EPZA and SEDCO. The IDC, through Sunway City, has made – and is still making – factory shells available to Small and Medium Enterprises (SMEs).

5.1.11 Prices and incomes stabilisation

The policy proposes the stabilisation of prices and incomes through a social contract. Although an agreement on three protocols was reached in 2007, its implementation was problematic with severe price inflation. By the end of 2008, Zimbabwe's inflation was the highest in the world.

5.1.12 Entrepreneurship development

The strategy was to develop the next generation of successful business owners through tertiary education and the promotion of small businesses in the informal sector. Tertiary education has been provided, but the macro-environment is preventing the trainee entrepreneurs and informal traders from setting up small businesses in numbers large enough to influence the economic development of the country. Trained potential businesspeople are choosing to work – or start businesses – outside of Zimbabwe.

Thus, overall, most of the strategy targets have been missed due to the macro-economic challenges that bedeviled the economy over the last 10 years.

5.2 Impacts and outcome of the industrial and trade policies

5.2.1 The industrial policy

Since the implementation of the industrial policy, capacity utilisation in the manufacturing sector has been on the decrease. For example, according to the manufacturing survey done by CZI, weighted average capacity utilisation in 2007 was 18.9%, compared to 33.8% in the 2006 sample. Thus, production levels have been very low recently. Companies faced serious foreign currency and raw materials shortages but still managed to register some exports with South Africa which became the new leading manufacturing export destination ahead of Zambia – which had been the leading destination in 2006 and 2007. The unemployment rate continued to rise despite the registered exports, reflecting reduced business activity in the hyperinflationary environment. Further, the labour force was not remunerated accordingly and this resulted in decreased demand for local products.

The government intervened through the Basic Commodity Supply Side Intervention²¹ but this policy intervention did not help increase production in the manufacturing sector since capacity utilisation remained low. Instead, it fuelled inflation as it increased money supply.

Cash shortages also negatively impacted on the performance of the manufacturing sector. The central bank introduced daily cash withdrawal limits which seriously constrained the business sector from carrying out its day-to-day activities, especially in view of the hyperinflation environment that prevailed in 2008.

The combination of a number of factors worked to undermine the overall activity of the economy. These included acute foreign exchange shortages in the formal systems, causing foreign exchange to circulate mainly on the black market. Foreign currency is key as it determines the ability of industry to source raw materials, spare parts, machinery and attract foreign business partners for new technology acquisition. The uncertainty in the political environment negatively interfered with the economic activities. As a result, the country was rated as risky for investment. There are other problems: negative perceptions by the

²¹ This is a facility that was introduced by the government of Zimbabwe in October 2007, and was aimed at boosting production through targeted financial support to manufacturers of basic goods as well as selected wholesalers and retailers.

international community; corruption and non observance of law by the economic agencies; hyper inflation and price distortions; lack of international credit lines; land underutilisation that meant that maximum agro inputs for the manufacturing sector could not be ensured.

Poor performance of both the industrial and trade policies was also attributed to the inability of utility suppliers i.e. ZESA, National Railways of Zimbabwe (NRZ), Hwange, NOCZIM and ZINWA to fulfill their mandates (Ndudzo, 2008, p.24). The impact of the international food shortage and other crises on the economy cannot be underestimated. The blend of these factors resulted in capacity under-utilisation for all industries and this is now below 20% for most companies.

5.2.2 Performance of the trade policy

Zimbabwe's high export potential is illustrated by the growth rate of total exports – positive in the second half of the 1990s, but turning negative in the early 2000s (see Table 5).

Table 5. Export Growth, 1991-2004 (annual average rate, %)

	1991-95	1996-00	2001-04	1991-2004
Zimbabwe	6.9	15.5	-1.1	7.7
World	8.7	4.8	9.7	7.6
Developing countries	12.2	7.8	12.5	10.7
Africa	2.1	9.2	10.7	7.1
South Africa	11.3	...
Tanzania	11.4	1.9	16.1	9.4
Kenya	11.5	0.8	14.7	8.6
Uganda	38.0	-4.2	17.7	17.1

Source: Munoz S (2006, p.5) Zimbabwe's Export Performance: The Impact of the Parallel Market and Governance Factors, IMF Working Paper WP/06/28

Zimbabwe's export performance was well above the average of African countries in the 1990s due to its comparative advantage in agriculture which was dominated by large commercial farms, and manufacturing (Munoz, 2006, p.5).

The negative performance of the exports as alluded above is illustrated in Table 6 below whereby all the major export sectors contracted between 2007 and 2008. The table shows the percentage decline of the export earning sectors. As can be seen, sharp contractions were registered in the tourism industry (-55%). However, the dismal performance of the industrial policy is notable in the data and largely explains the poor performance of exports.

Table 6. Export Earnings: decline by main sectors

Sector/Product	2007- 2008 % change
Mineral	15.7%
Tobacco	24.3%
Agriculture	4.5%
Manufacturing	12%
Tourism	55%

Source: Kwaramba M. (2009), slide 29: Re-energizing the industrial base and Drawing the world's attention to Zimbabwe - Towards a robust industrial, Trade and Investment strategy

During the period under study, neither the industrial nor the trade policy performed well as planned because of the political and socio economic challenges the country has faced since 1999. The Look East Policy, as one of strategies in the National Export Strategy, did not deliver and it did not achieve buy-in support from a private sector that kept shying away from the Asian markets.

6. CONCLUSION & WAY FORWARD

The paper attempted to assess the linkages between the industrial and trade policies of Zimbabwe. The paper provided an overview of the country's manufacturing sector. The evolution of the country's industrial and trade policies between 1965 and 2008 was highlighted. The paper then laid out the goals, objectives and strategies of the current industrial and trade policies. The paper illustrated the linkages of the two policies and use the textiles and clothing industry as a small example. It also assessed the role of the private sector in the policy formulation and implementation and highlighted that policy formulation is largely evidence-based. Lastly the paper analysed the performance and impact of the two policies.

Zimbabwe has vast potential for export revenue generation, an advantage emanating from its diversified export basket. The sectors that currently contribute significantly to export earnings include mining, agriculture and tourism. However, the export basket is generally dominated by unprocessed primary commodities, largely constraining Zimbabwe's capacity to maximise export earnings.

The government strongly believes that transforming the country's natural resources into value added manufactured products will boost its export sector as generation of increased export earnings is central to the recovery of the economy. In this sense the country's industrial policy is strongly linked to the trade policy. The broad objective of Zimbabwe's industrial policy is to transform the country from a producer and exporter of primary goods to a producer and exporter of value added goods. Zimbabwe crafted a national export strategy to support the industrial policy.

The manufacturing sector contributes significantly to Zimbabwe's economy in terms of GDP, exports, employment and value addition to locally-produced raw materials. The sector is the backbone of the Zimbabwean economy, with backward and forward linkages with the major sectors of the economy, that is agriculture, tourism, mining and services.

The most integrated and diversified manufacturing sector of Zimbabwe partly owes its background to the result of the long period of trade sanctions following the Unilateral Declaration of Independence (UDI), to a good infrastructure and to high levels of human capital in the 1990s. However, political and economic meltdown in the past decade have reversed these achievements.

Trade liberalisation provided the means to launch the economy on a faster growth path. The authorities saw that the opening up of the economy would be necessary to address acute shortages of foreign currency as well as balance of payment problems. The industrial policy,

however, was put in place to in order for the country to achieve its industrial development objectives in view of the challenges it was going through, both in its internal and external environments.

The policies are strongly linked in that one focuses on production capacities and the other provides a platform for the exchange, both domestically and internationally, of the goods produced. They are complementary though trade policy in the Zimbabwe is *an implementing strategy of the industrial policy*. Problems remain however. The country does not have a trade policy per se; also, whilst the current trade policy thrust is on export promotion of the higher value added manufactured goods, the economy has been subjected to large political and socio-economic challenges during the last ten years. The industrial policy is not explicit in terms of targets, goals, and indicators. Also, whereas the private sector and other stakeholders are involved in policy making in Zimbabwe, the extent of their involvement is sometimes limited by government interests. The country has put in place some incentives to lure foreign and domestic investment. However, the climate has not been sufficiently conducive to attracting new investments or to maintaining existing ones. Finally, the two policies discussed in the paper are, to a great extent, dependent on regional integration. Their performance has been constrained by the political and economic environment and hence, in terms of impact, there de-industrialisation has taken place instead of positive industrial development.

Zimbabwe's economic decline occurred at the time when most African countries were achieving reasonable annual growth rates averaging 4.8% mainly due to their sound macroeconomic policies that managed to contain inflation. This matters for the way forward. The authorities need to create a conducive macroeconomic environment that favours local production of goods and services. The government must realise that macroeconomic stability is central to success. Thus, the economy must be put back on track as a great number of companies are now distressed. The government seriously needs to craft policies to revive the manufacturing sector. In this regard, the industry must be supported by affordable industrial finance that enables it to recapitalise, to increase capacity utilization and to strengthen economic linkages (such as with the agriculture, mining, tourism and construction sectors which have been under severe stress in the past ten years).

Zimbabwe's industry reflects strong forward and backward linkage with the other sectors of the economy. Therefore there is need for a holistic approach to take-off. For example, agriculture supplies 63% of the inputs needed by the industry; industry provides approximately 40% inputs needed by the agriculture sector. However, the agriculture sector is currently down and there does not seem to be sustainable policies devise to revive it. In this sense, the industrialists should work hand-in-hand with the cash-strapped government to resuscitate the agriculture sector for it to be able to provide meaningful inputs to the industry.

The current industrial policy is very comprehensive and therefore requires proper implementation. The country must not only choose priority industries to focus on, but

specific products as well. These products must be selected from sectors where the country has competitive advantage and can, therefore, be pushed into the region (SADC and COMESA). It is also key to strive for cost leadership and product differentiation as viable competitive strategies. The country needs to focus on skills and knowledge-intensive operations and the government should accept that the private sector is the lead player whilst it is a facilitator and promoter, not a planner and active producer (Kwaramba, 2009, slide 51).

It is important to bear in mind that reindustrialising and industrialising Zimbabwe will take time and will depend heavily on substantially increased FDI inflows. Hence, it is imperative for the country to make efforts to improve the investment climate, for both domestic and foreign investors.

What is also required is consistent implementation of the strategies identified in the industrial policy as they are still valid and relevant to moving the country forward. The parastatals need to be repositioned and recapitalised to ensure that they carry out their mandate as set out in the industrial policy. There is also a need for increased investment in human capital, i.e. training and skills development, as well as for the retention of trained staff. The country must invest in technology as well as research and development.

The social contract must be resuscitated as well. This involves government, labour and the private sector working together for policy making and for the implementation processes. The relationships among these three pillars have been disturbed by the deep economic and political crises mentioned above.

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