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*Customs and Tax Advisors*

## ANALYSING THE SOUTH AFRICA AND ZIMBABWE TRADE RELATIONS AND WHAT SOUTH AFRICA CAN DO TO HELP ZIMBABWE by Elisha Tshuma

### Background

Zimbabwe is experiencing socio-economic challenges. The economy contracted sharply in 2019 and is expected to continue in 2020. Climate shocks have negatively affected agriculture and electricity generation. Almost half of the population is food insecure. The International Monetary Fund (IMF) attributed Zimbabwe's challenges to policy missteps and climate-related shocks<sup>1</sup>. On the other hand, government critics accused it of using covid 19 restrictions to violate human rights.<sup>2</sup>

South Africa has shown willingness to assist Zimbabwe by sending two teams of envoys to Zimbabwe to engage the authorities<sup>3</sup>. South Africa is one of the most important trading partners for Zimbabwe; with Zimbabwe importing 40% of its total imports and exporting 75% of its total exports to South Africa. Despite Zimbabwe being a small player in South Africa's global trade, the country in 2016 was ranked 5th and 7th most important trading partner with South Africa for exports and imports in Africa respectively.<sup>4</sup> The table below shows Zimbabwe's exports to South Africa in 2019.

Zimbabwe exports to South Africa	Value	Year
<u>Tobacco and manufactures tobacco substitutes</u>	\$717.50M	2019
<u>Ores slag and ash</u>	\$543.80M	2019
<u>Pearls, precious stones, metals, coins</u>	\$472.21M	2019
<u>Iron and steel</u>	\$94.40M	2019
<u>Nickel</u>	\$61.52M	2019
<u>Cotton</u>	\$41.37M	2019
<u>Raw hides and skins (other than furskins) and leather</u>	\$26.75M	2019

<sup>1</sup> See <https://www.imf.org/en/News/Articles/2020/02/26/pr2072-zimbabwe-imf-executive-board-concludes-2020-article-iv-consultation>.

<sup>2</sup> <https://www.aa.com.tr/en/africa/foreign-missions-condemn-rights-abuses-in-zimbabwe/1956459>

<sup>3</sup> <https://www.thesouthafrican.com/news/south-africa-envoy-zimbabwe-september-2020/>

<sup>4</sup> <https://www.tralac.org/resources/our-resources/12128-south-africa-s-trade-with-zimbabwe.html#:~:text=Trade%20Performance,total%20exports%20to%20South%20Africa.&>

Zimbabwe exports to South Africa	Value	Year
<u>Salt, sulphur, earth, stone, plaster, lime, and cement</u>	\$22.66M	2019
<u>Edible fruits, nuts, peel of citrus fruit, melons</u>	\$20.05M	2019
<u>Machinery, nuclear reactors, boilers</u>	\$19.37M	2019

Zimbabwe exports to South Africa were US\$2.1 Billion during 2019, according to the United Nations COMTRADE database on international trade.<sup>5</sup>

Apart from being an important trading partner, South Africa has absorbed a significant number of Zimbabwe economic refugees. It is estimated that South Africa hosts between one million and three million Zimbabweans.<sup>6</sup> Further deterioration of the socio-economic situation in Zimbabwe may result in more Zimbabweans flocking to South Africa. This will in turn put a strain on South Africa's social and public resources. How can South Africa help Zimbabwe solve its economic challenges? This paper starts by examining the two countries' trading history and then suggest ways South Africa could help its neighbour.

#### **1964 bilateral trade agreement.**

The two countries had a bilateral trade agreement that ran between 1964 and 2018. At the time the agreement was signed South Africa was still under apartheid and Zimbabwe was also still Southern Rhodesia. The economies of both countries were equally strong. Both countries had strong and vibrant manufacturing firms. South Africa had the advantage of its proximity to the sea and Zimbabwe also had a strong international market. At the time of consummation, the agreement served both countries well.

Zimbabwe got its independence in 1980 and South Africa got hers in 1994. Between 1980 and 1992 Zimbabwe was a member of the Southern African Development Coordinating Conference (SADCC), established on 1 April 1980 with the main aim of coordinating development projects in order to lessen economic dependence on the then apartheid South Africa<sup>7</sup>. Southern African Development Coordinating Conference (SADCC) was transformed to be The Southern African Development Community (SADC) on August 17, 1992. 'The main objectives of SADC are to achieve development, peace, and security, and economic growth, to alleviate poverty, enhance the standard and quality of life of the peoples of Southern Africa, and support the socially disadvantaged through regional integration, built on democratic principles and equitable and sustainable development.'<sup>8</sup> 'South Africa acceded to the SADC Treaty on 29 August 1994 at the Heads of State Summit in Gaborone, Botswana. This accession was approved by the Senate and National Assembly on 13 and 14 September 1994 respectively. As a member of SADC, South Africa's focus is on regional co-operation for the socio-economic development of the Southern African region.'<sup>9</sup>

<sup>5</sup> <https://tradingeconomics.com/zimbabwe/exports/south-africa>

<sup>6</sup> <https://africacheck.org/reports/how-many-zimbabweans-live-in-south-africa-the-numbers-are-unreliable/>

<sup>7</sup> <https://au.int/en/recs/sadc>

<sup>8</sup> <https://www.sadc.int/about-sadc/overview/>

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<http://www.dirco.gov.za/foreign/Multilateral/africa/sadc.htm#:~:text=South%20Africa%20acceded%20to%20the,State%20Summit%20in%20Gaborone%2C%20Botswana.>

Year	CPI	Country Rank	Total countries
1998	4.2	44	85
1999	4.1	48	99
2000	3	67	90
2001	2.9	65	91
2002	2.7	76	102
2003	2.3	112	133
2004	2.3	121	146
2005	2.6	116	159
2006	2.4	130	163
2007	2.1	153	179
2008	1.8	166	180
2009	2.2	146	180
2010	2.4	134	178
2011	2.2	154	182
2012	2.0	163	174

In August 2008, the SADC Free Trade Area was achieved and both South Africa and Zimbabwe were members. This meant that the two countries now had two trade agreements which their traders could utilise. Traders could choose between the SADC FTA and the 1964 bilateral agreement.

The Zimbabwe economic situation had changed. Zimbabwe had implemented a land reform programme since the year 2000. In some cases, it was done violently and without compensation raising an outcry from the international community. Restrictive measures were imposed on Zimbabwe by the EU and the United States of America. This had significant economic consequences for Zimbabwe. Levels of corruption were also rising. The table below shows the Zimbabwe corruption perception trend between 1998 and 2012.

*Source:* Zimbabwe's corruption perception index (CPI)<sup>10</sup>

In 2008, Zimbabwe promulgated the Indigenization and Empowerment Act. The Act required foreign-owned companies to offer at least 51 percent of their shares to indigenous Zimbabweans. This might have affected Zimbabwe's ability to attract international capital.<sup>11</sup>

From the Zimbabwean perspective, the advantages of the bilateral agreement were that it was simple to import mainly wholesale and retail goods as they only required a licence and would enjoy duty-free status. Zimbabwe's textile and clothing sectors found it easier to export their product to the South African market as well as acquire textiles as Rules of Origin allowed for the single transformation. It was flexible and allowed for the protection of the industry.

From a policy perspective, Zimbabwe's challenge with the bilateral agreement was the frequently imported goods under this agreement which were foodstuffs such as cooking oil, fruits, milk as well as meat from chickens, bovine animals, and swine. These foodstuffs were imported duty-free under licence. As alluded to above, Zimbabwe was facing a mirage of challenges and its industry was no

<sup>10</sup>[https://www.researchgate.net/figure/Zimbabwes-corruption-perception-index-CPI\\_tbl1\\_279744056](https://www.researchgate.net/figure/Zimbabwes-corruption-perception-index-CPI_tbl1_279744056)

<sup>11</sup><https://www.loc.gov/law/foreign-news/article/zimbabwe-indigenization-and-empowerment-act/>

longer as competitive as it was in 1964. This allowed the South Africans to easily export their products into the Zimbabwean market.

Zimbabwe continued to experience problems in implementing its tariff commitments on sensitive products under SADC FTA and was allowed to suspend tariff phase-downs from 2010 until 2012. Annual reductions were expected to resume in 2012, for completion in 2014.<sup>12</sup> In 2012 it introduced surtax on certain goods and affected goods imported from SADC inclusive of South Africa. Zimbabwe reviewed rates of duty on a number of products imported from South Africa under the SADC FTA. The aim was to protect the local industry by controlling imports from their major trading partner. However, the aim could not be achieved as traders could avoid using the SADC FTA and import goods under the bilateral agreement, for example, duty for wooden doors under SADC FTA attracted 40% customs duty whereas the same could be imported duty-free under a license when imported using the bilateral agreement. On the other hand, South Africa did not have challenges with SADC FTA rules of origin on products such as textiles and clothing. South Africa decided to simplify its trade regime by abolishing bilateral agreements with countries with whom they had other regional agreements. It, therefore, gave a twelve (12) months' notice to terminate the bilateral agreement which ended in November 2018.<sup>13</sup>

### **So what governs trade relationship now that the 1964 bi-lateral lapsed in 2018?**

Trade between the two countries is covered under the SADC Protocol on Trade. The two countries have also signed and ratified the Africa Continental Free Trade Area (AfCFTA). On the other hand, Zimbabwe has signed the Tripartite Free Trade Area (TFTA) Agreement and is in the process of finalising its ratification process while South Africa has already ratified.

Zimbabwe has a Memorandum of Understanding (MoU) on Economic and Trade Cooperation with South Africa which was signed in April 2015 valid for 10 years. This MoU will be subject to automatic renewal for further periods of 5 years unless terminated by either party by giving 6 months' notice.

### **What would a progressive trade relationship between Zimbabwe and South Africa look like?**

A progressive trade relationship with South Africa should be under the ambit of regional trade. This should be under SADC, Tripartite, and the AfCFTA. The issue of bilateral arrangements has been overtaken by events in the current trading arrangements. It would be better for Zimbabwe and South Africa to implement economic cooperation. Further, the development of value chains would allow for progressive trade.

### **How can South Africa help Zimbabwe?**

An economically weak Zimbabwe provides South Africa with human capital that cannot be absorbed by the local industry. A weak Zimbabwean industry cannot compete with South African producers and Zimbabwe becomes South Africa's wholesale market. On the other hand, for Zimbabwe to continue being a good trading partner with South Africa, its industry should operate to full capacity so that its citizens have disposable income through employment. When South Africa turns Zimbabwe into a wholesaler this forces many companies to close and as Zimbabweans lose jobs, they migrate to South Africa. In the long run, the migration causes socio-economic challenges in South Africa resulting in xenophobic attacks from its restive citizens. South Africa is also facing employment challenges of its own and cannot import goods that it can produce as this will hurt its industry. The question that then

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<sup>12</sup> <https://www.sadc.int/about-sadc/integration-milestones/free-trade-area/>

<sup>13</sup> <https://www.tralac.org/publications/article/13524-termination-of-the-south-africa-zimbabwe-trade-agreement-what-next.html>

arises is that, how can South Africa balance their desire to export goods to Zimbabwe and be helping Zimbabwe improve its economic performance? One way is for South African companies to invest in Zimbabwe and create employment for Zimbabweans in Zimbabwe. South African investors can utilise the Bilateral Agreement for the Promotion and Reciprocal Protection of Investments (BIPPA).

*'The Republic of South Africa imported US\$88.1 billion worth of goods from around the globe in 2019. From a continental perspective, 45% of South Africa's total imports by value in 2019 were purchased from Asian countries. European trade partners supplied 31.5% of imported goods bought by South Africa while about 12% worth originated from fellow African nations. North American exporters accounted for 7.6% of South Africa's imports, with 2.3% coming from Latin America (excluding Mexico) plus the Caribbean and 1.3% shipped from Oceania led by Australia.'*<sup>14</sup> South Africa can increase its imports from African trading partners especially Zimbabwe.

The following product groups represent the highest dollar value in South Africa's import purchases during 2019. Also shown is the percentage share each product category represents in terms of overall imports into South Africa.

1. Mineral fuels including oil: US\$14.8 billion (16.8% of total imports)
2. Machinery including computers: \$11.2 billion (12.7%)
3. Electrical machinery, equipment: \$8.6 billion (9.7%)
4. Vehicles: \$7 billion (8%)
5. Plastics, plastic articles: \$2.5 billion (2.8%)
6. Pharmaceuticals: \$2.4 billion (2.7%)
7. Optical, technical, medical apparatus: \$2.2 billion (2.5%)
8. Other chemical goods: \$1.6 billion (1.8%)
9. Organic chemicals: \$1.4 billion (1.6%)
10. Books, newspapers, pictures: \$1.3 billion (1.5%)

Source<sup>15</sup> (<http://www.worldstopexports.com/south-africas-top-10-imports/>)

South Africa could deliberately decide to invest in the Zimbabwe pharmaceutical industry and resuscitate it.

On 27 November 2009, the governments of South Africa and Zimbabwe signed a Bilateral Agreement for the Promotion and Reciprocal Protection of Investments (BIPPA) in Harare. *'Although theoretically a reciprocal agreement, the BIPPA was signed largely to make provision for the South African business community's interest in investment opportunities in Zimbabwe, particularly in the agro-processing sector, telecommunications, mining, and infrastructure. South African investors, who remain Zimbabwe's largest African trading partner, have in the past been anxious about investing in Zimbabwe because of the high levels of uncertainty about the protection of their investments, particularly the protection of property rights. The BIPPA aims to allay this uncertainty. The Department of Trade and Industry also made it clear that a driving factor behind South Africa*

<sup>14</sup><http://www.worldstopexports.com/south-africas-top-10-imports/#:~:text=by%20FlagPictures.org%20The%20Republic,decline%20from%202018%20to%202019.>

<sup>15</sup><http://www.worldstopexports.com/south-africas-top-10-imports/>

*aiding Zimbabwe's economic recovery was to alleviate the burden placed on the South African Government resources by Zimbabwean immigrants.*<sup>16</sup> Investment by South African companies in Zimbabwe would assist in building local industries that can compete in the region and beyond. South African companies that decide to expand their operations into Zimbabwe may benefit from Zimbabwe's membership in the Common Market for Eastern and Southern Africa (COMESA). They can produce in Zimbabwe and export duty-free under COMESA FTA to SADC countries which are yet to completely phase down tariffs but have done so under COMESA FTA.

Another way is for South Africa to promote regional value chains. South Africa may deliberately decide to import certain goods required in their manufacturing plants from Zimbabwe. South Africa may further discourage the exportation of certain goods that Zimbabwe can produce on its own. It should assist in building regional value chains as the concept of made in the world.

### **How can Zimbabwe help itself?**

We observe that in Zimbabwe, politics is at the centre of everything. The level of political polarisation is very high. The nation is ever in an electioneering mood and little time is left for national building discourse. Zimbabwe should work hard to unite its people.

Zimbabwe needs to work on changing the perception the world has on levels of corruption. Corruption scares away international capital as it raises the cost of doing business.

Zimbabwe exporters should pay attention to what South Africa will be importing at any given time with a view to finding out if they cannot produce and export the same. Zimbabwe production of exports should be demand driven.

### **About the author:**



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***He writes in his personal capacity.***

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<sup>16</sup> [https://www.bowmanslaw.com/insights/employment/implications-ramifications-zimbabwe/#:~:text=On%2027%20November%202009%20the,Investments%20\(BIPPA\)%20in%20Ha](https://www.bowmanslaw.com/insights/employment/implications-ramifications-zimbabwe/#:~:text=On%2027%20November%202009%20the,Investments%20(BIPPA)%20in%20Ha)