Zimbabwe-South Africa relations under pressure:

An eye for an eye or turn the other cheek?

The political and economic developments in Zimbabwe remain of significance to South Africa as an immediate neighbour, as well as to an economically-interdependent SADC region. The risk of 'beggar-my-neighbour' policies has risen. This research document looks specifically into some of the practical implications of the recent selective ban on South African products being imported into Zimbabwe. The study highlights the unintended consequences that larger macro-political and economic pressures in Zimbabwe have on South-Africa-Zimbabwe trade relations and policy. The research document also examines a few of the options open to South Africa at this important juncture.

22 September 2016

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1. Background

Ten years ago, the Zimbabwe economy was teetering on the edge of collapse, with surging inflation, a currency in free fall and a formal business sector that had all but stopped producing any meaningful levels of output. 2005 was a watershed year in which a serious shortage of foreign reserves (Coomer and Gstraunthaler, 2011) and a relaxation in monetary policy sent inflation into an upward spiral. With the government facing dwindling revenue as a result, it directed the Reserve Bank of Zimbabwe (RBZ) to print money so that it could meet its spending requirements and service its debts. This fanned the inflationary flames even more, and hyperinflation set in.

Hyperinflation in the country peaked in 2008, at a mind-boggling 500 billion per cent (IMF, 2009), which was the second highest rate that had ever been recorded in the world (Hanke, 2014). Various measures were adopted in an attempt to rein in the inflation rate – from periodically lopping off several zeros on the printed bank notes, to declaring inflation 'illegal'. Finally, in 2009, with no solution in sight to arrest the country's runaway price increases and currency slide, the authorities took the drastic step of abandoning the Zimbabwe dollar and officially adopting a combination of other currencies, with the US dollar and the South African rand leading the way.

June 2009 marked the start of a period in which Zimbabwe eventually broke free of the grip of hyperinflation. Yet political uncertainties (including ongoing hostilities between the ruling party, ZANU-PF, and the main opposition party, the MDC) and sluggish economic thinking and activity have in the meantime constrained inward investment and commercial output. A policy of indigenisation of companies (making it mandatory for the majority of shares in companies to be held by Zimbabwean nationals) and extensive price controls have helped to suppress economic activity in the country in recent years (Coomer and Gstraunthaler, 2011).

Today, almost ironically, Zimbabwe is confronted by a new challenge: deflation. In May 2016, for example, Zimbabwe's annual inflation rate was reported to be -1.69% (Reserve Bank of Zimbabwe, 2016). Deflation is problematic for Zimbabwe because it encourages consumers to postpone making purchases in the expectation that prices will continue to fall the longer they wait. In the face of lower demand for goods and services, the country's producers have had no choice but to slow down their production, which has put a damper on economic growth and job prospects. This is compounded by the fact that the government is in arrears in its repayments to external lenders (RBZ, 2015), thus making it very difficult to raise additional sources of finance for growth-stimulating initiatives.

Hyperinflation might not be a problem anymore in Zimbabwe, but it was a clear symptom of underlying, systemic (often politically-derived) problems in the economy, which persist to this day. In the World Economic Forum's *Global Competitiveness Report 2015-2016*, Zimbabwe ranked 15th from the bottom of the list (of 140 countries). Although this is an improvement over its 2005 ranking of 7th from the bottom of the list (of 117 countries) — Zimbabwe's economic problems are deeply rooted. Also evident in the *GCR 2015-2016* was Zimbabwe's relatively poor showing in terms of institutional capacity and effectiveness, ranking 112th (of 140 countries). While Zimbabwe's GCI (Global Competitiveness Index) score of 3.5 in 2015-2016 was a positive change from its 2005-2006 score of 2.1 (see Table 1), the better showing was due to improvements in only two of the pillars, i.e. health and primary education and macroeconomic environment, as indicated in Table 2 (World Economic Forum, 2016).

It is only through major restructuring of those institutions in the country that are charged with determining and/or implementing economic policy that Zimbabwe will have any chance of becoming a vehicle for improved competitiveness, sustainable growth and employment, and social harmony (Parsons, 2007).

When a country in a geographically-connected region succumbs to acute economic problems, its neighbours inevitably feel the fallout — in the form of shrinking markets for their exporters, an influx of job seekers and/or damaged trade relations. Thus, the question should be asked: should regional powers stand by and let Zimbabwe possibly exercise poor judgement again in the face of its new economic challenges? In the early 2000s, when the economic crisis in Zimbabwe was escalating, former President Thabo Mbeki's approach to handling the crisis was to display 'quiet diplomacy'. In more recent years, too, the South African government has evidently been content to leave Zimbabwe largely to its own devices (Mlambo, 2016). Although South Africa is believed to have the means to put pressure on President Robert Mugabe to deviate from his destructive path and avert a further crisis in that country (with all the unwanted spill-over effects for South Africa and others), it has generally chosen to stay out of the fray. The importance of respecting Zimbabwe's sovereignty has been put forward as the main argument supporting South Africa's policy of non-interference.

However, a recent policy decision by the Zimbabwe government has put Zimbabwe-South Africa relations under pressure and has created an unusual level of tension between the respective governments. On 17 June 2016, the Zimbabwe government unexpectedly announced that a list of 43 South African product categories would be banned from importation into Zimbabwe. Gazetted under Statutory Instrument 164 of 2016 (SI 164), the ban — according to Zimbabwe's Minister of Industry and Commerce, Mike Bimha — had been initiated to "support our local industry" (The Herald, 2016). By unilaterally tampering with an established pattern of trade and also threatening the livelihoods of thousands of informal traders on either side of the border, the Zimbabwe government appears to have taken their sovereign right to extremes, at the expense of formal trade protocols and established government-to-government etiquette. South Africa's response to this curved ball from Zimbabwe is important as it is likely to set the tone for a new type of engagement between the two governments and could even set a new precedent for the resolution of other regional squabbles that arise in the future.

2. Can Zimbabwe industry fill the void created by the import ban?

According to 2015 figures (see Table 3), the list of now-banned South African products that can no longer be imported into Zimbabwe had a value of USD 131.83 million[1] that year. Exceptions would be those products for which an import licence might be issued by the Zimbabwe government "when local production cannot meet the national demand" (The Herald, 2016). As Table 3 and Figure 1 indicate, fertilisers, coffee creamer, mayonnaise, plastic pipes and fittings, and camphor creams are the most affected by the ban.

Although, in total, the banned products represented only 5.72% of Zimbabwe's imports from South Africa in 2015, the number of affected products is nevertheless significant. Perhaps the most important observation that can be made is the large share held by South African products in Zimbabwe's imports of the various product groups. Table 3 attests to this. Of all the products appearing on the banned list, South African products constituted a weighted average of 66.68% of the total imports of these products into Zimbabwe in 2015.

With a number of products being banned, the question of just how Zimbabwe is going to replace them certainly arises – especially given the country's poor goods market efficiency and low levels of business sophistication, which were ranked 130th and 131st respectively in the *GCR 2015-2016* (World Economic Forum, 2016). The

[1] Figures for second-hand tyres, maheu and compounds and blends were unavailable, indicating that the calculated figure of USD 131.83 million should be even higher. Some products were grouped together into overarching categories, e.g. 'beds' and 'wardrobes' were combined under 'furniture', thereby whittling the original list of 43 products down to 34.

Zimbabwean authorities claim that the country can fill the gap via its local manufacturing base. However, there is little evidence of this. As production figures are nearly impossible to obtain, an examination of Zimbabwe's trade figures as an alternative reveals that the country will fall miserably short if it tries to replace the previously-imported products with local substitutes. The country currently has a negative trade balance in respect of nearly ALL of the product groups (except for peanut butter and baler twine). In fact, the value of exports represented a mere 7.52% of the value of imports in 2015. Nevertheless, Davison Norupiri, president of Zimbabwe's National Chamber of Commerce, has asserted that while some companies have been adversely affected by the country's economic woes, "others have seen increases of well above 30% capacity utilisation and increased productivity" (Zim Eye, 2016). If Zimbabwe does have the capacity to manufacture/produce these products, then it is doing a fine job of keeping such capabilities a secret.

3. Implications of the import ban for Zimbabwe-South Africa relations

The imposition of a ban on a range of South African goods which, it is claimed, interfere with Zimbabwe's local manufacturing drive should be seen within the broader context of Zimbabwe's export and import performance, and its trading relationship with South Africa.

In 2015, Zimbabwe reported a negative trade balance of USD 3.3 billion (USD 6 billion-worth of imports vs only USD 2.7 billion-worth of exports), as shown in Table 4. Trade constituted more than 75% of Zimbabwe's GDP – below the SADC average of 106% but a sizeable proportion nonetheless. This is a sign of how far the country has come in terms of trade liberalisation. Not all of Zimbabwe's trade is regional but a great deal of intra-SADC trade does take place, with South Africa leading the way as a source of imports into Zimbabwe and as an export destination for Zimbabwe goods.

Figure 2 shows that South Africa is the recipient of more than 71% (in terms of value) of all products exported from Zimbabwe. Neighbouring Zambia and Mozambique also feature in the top 10 export destinations, but their relative importance is dwarfed by that of South Africa. Similarly, Figure 3 highlights the importance of South Africa to Zimbabwe's trade. South Africa supplies more than a third of Zimbabwe's imports, surpassing the proportion supplied by Singapore (Zimbabwe's second largest source of imports) by 72% (in terms of value). Two other SADC neighbours, Zambia and Mozambique, are listed in the top 10 but their respective contributions are small. South Africa's importance as a trading partner to Zimbabwe is further reinforced in Tables 5 and 6.

Clearly, South Africa is a natural and strategically important ally of Zimbabwe on both the export and import fronts. A sector-specific picture of the two countries' trade interdependence is shown in Figures 4 and 5. With Zimbabwe having adopted an open economy approach and with trade accounting for almost 75% of GDP (World Bank, 2016), the imposition of a ban on its most important trading partner is cause for alarm and raises some serious questions. Protectionist arguments appear somewhat misplaced in the light of the current narrative about regional integration and its many benefits. Having said that, a selective ban on South African imports could help to push Zimbabwe out of its deflation trap. As with the switch to the US dollar some years ago, this appears to be a desperate attempt to escape the latest economic crisis and is another reminder of the economic bungling that has long characterised Robert Mugabe's administration.

Even if a lack of competitiveness (and a shortage of foreign exchange) prompted the Zimbabwe government to impose emergency ad hoc measures against imports from South Africa, Zimbabwe immediately opened itself up to the possibility of South Africa reciprocating. For example, the unilateral decision by Zimbabwe to 'turn off the tap' to a range of South African exports could be countered by South Africa deciding to 'turn off the lights' since South Africa supplies Zimbabwe with 300 MW of power per day (African News Agency, 2016). Whether South Africa decides to exploit its position or not, the country clearly has an upper hand in terms of the economic power it wields. This has induced Zimbabwe to offer to make certain 'concessions', according to Minister Bimha (Zim Eye, 2016). Exactly what these concessions will entail have yet to be clarified. At the time of writing, Rob Davies, South Africa's Minister of Trade and Industry, was still locked in discussions with his Zimbabwe counterpart on the best way forward.

On face value, the import ban compromises Zimbabwe's trade obligations under the Southern African Development Community (SADC) Trade Protocol (SADC, 2016) and infringes on basic WTO principles (WTO, 2016). As both SADC and the WTO promote freer trade and greater integration between individual countries and the region as a whole, it is alarming that Zimbabwe is deciding to 'take the opposite view'. Other SADC countries not directly affected by the ban have said that Zimbabwe's action flies in the face of formal trade protocols and regional cooperation. However, many Zimbabwean manufacturers are adamant that they need protecting. Wheat producers in the country now want the ban to extend to imported wheat flour in a bid to stop the decline of bread production in Zimbabwe.

While the effects of the import ban are unfolding rather slowly at a macro level, at a micro level they are already being keenly felt. Many small-scale traders make a living by engaging in close proximity cross-border trade between the two countries. Preliminary studies point to the main economic impact being felt in the South African town of Musina in the Limpopo province near the Zimbabwe border. "The loss to the Limpopo economy will be approximately R100 million per month in terms of loss of sales" (Mostert, 2016). In July 2016, the International Cross-border Traders Association threatened to close down the Beit Bridge border again if the Zimbabwe government did not lift its ban on imports of basic goods (Manyathela, 2016).

4. What are South Africa's options going forward?

South Africa could consider lodging a complaint with the WTO as the SADC Trade Protocol makes no provision for formal dispute settlement (Khumalo, 2016). However, this process could be extremely time-consuming. Trade disputes between WTO members are dealt with through the WTO Dispute Settlement Body and typically take about 15 months to resolve, although some trade disputes have dragged on for as long as three years (WTO, 2016).

An alternative approach would be to try and force SADC countries to reinstate Annex VI of the SADC Trade Protocol (concerning the settlement of disputes between member countries) or at least reinstate the Tribunal that was disbanded (Khumalo, 2016). Adopting a regional approach might deliver a swifter resolution, but it would depend on cooperation from the SADC governments.

South Africa could take a tough stance and retaliate with a similar ban in the opposite direction, or take even more drastic steps and cut back on the supply of electricity to Zimbabwe. As South Africa has historically behaved in a very diplomatic fashion towards its noisy neighbour, invoking this option would come as a great surprise.

All things considered, South Africa is extremely unlikely to lodge an official appeal with the WTO, and will probably also desist from reciprocating with a ban of its own. As a result, Zimbabwe is essentially 'buying time'. As disputes under WTO rules can be settled between countries at any time, the Zimbabwean Industry and Commerce Ministry no doubt expects South Africa to opt for this gentler route rather than lodge an official complaint. As the two countries are already engaged in negotiations over the matter, a complaint will surely not arise, and external intervention is unlikely.

But what will the ultimate cost to South Africa be of ‘turning the other cheek’? Considering South Africa’s difficult economic climate at present and with credit agencies circling menacingly, any delay in resolving this ‘sudden inconvenience’ will add to South Africa’s cost burden and compromise its regional reputation — at a time when the country can least afford it. If history has taught people anything about the relations between Zimbabwe and South Africa, it is that doing nothing leads to nothing. If South Africa does not toughen up and send the right message to Zimbabwe, it will set a precedent for similar incidents to occur in the future — to the detriment of the trading communities at large who play a pivotal role in their countries’ economies.

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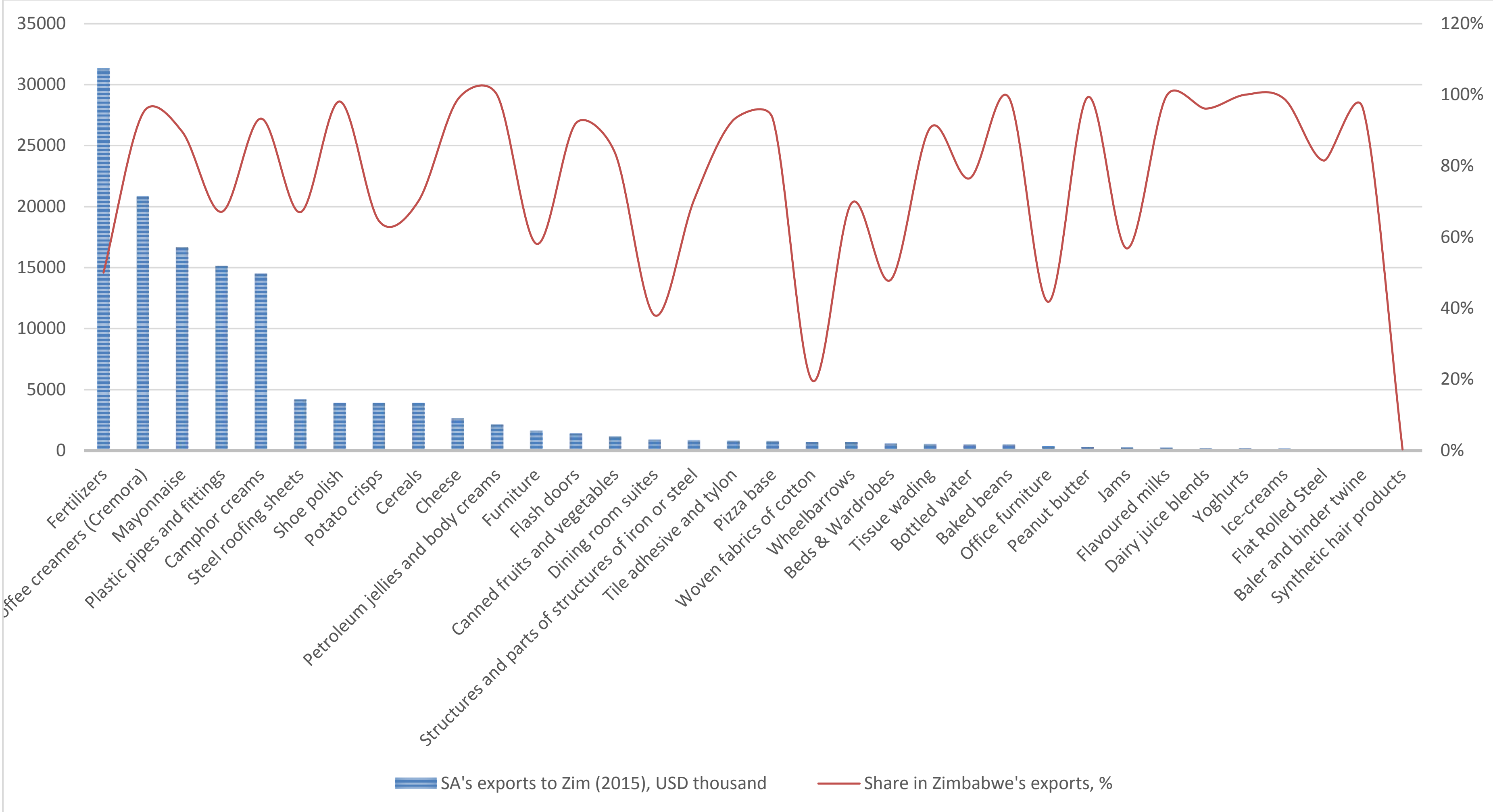
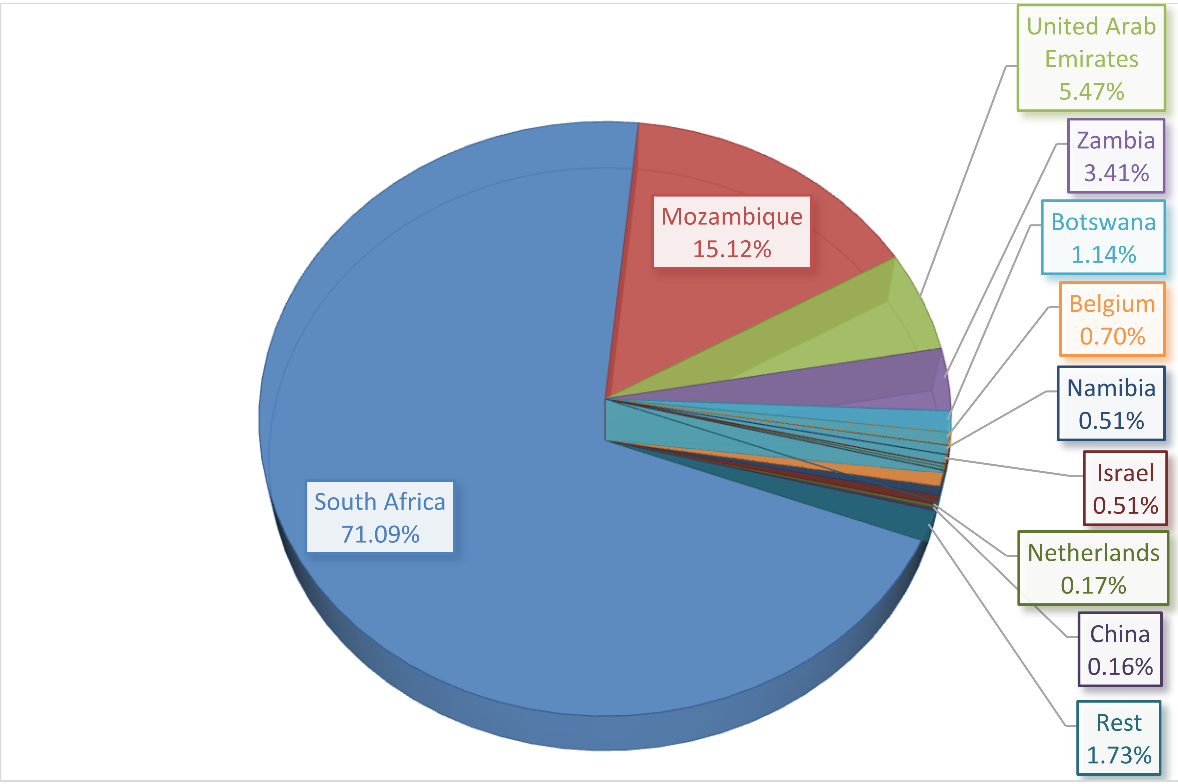
Annexures

Figure 1: Quantity and share of products under Zimbabwe's import ban



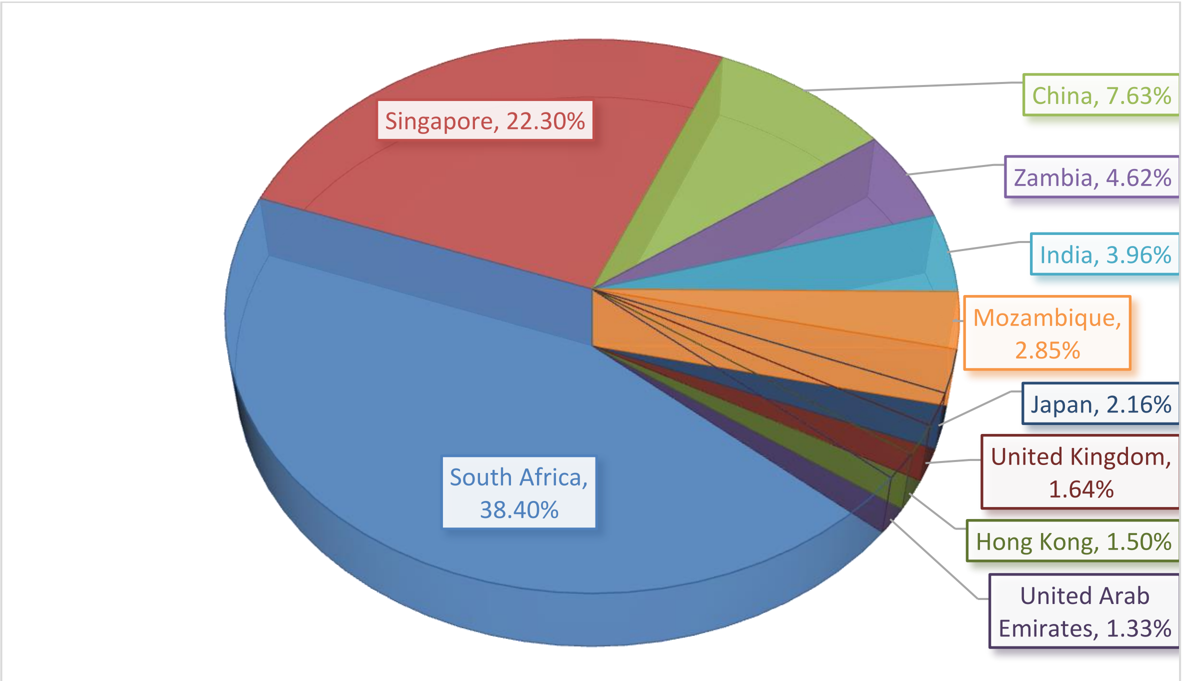
SOURCE: (Trade Map, 2016)

Figure 2: Top 10 export partners of Zimbabwe



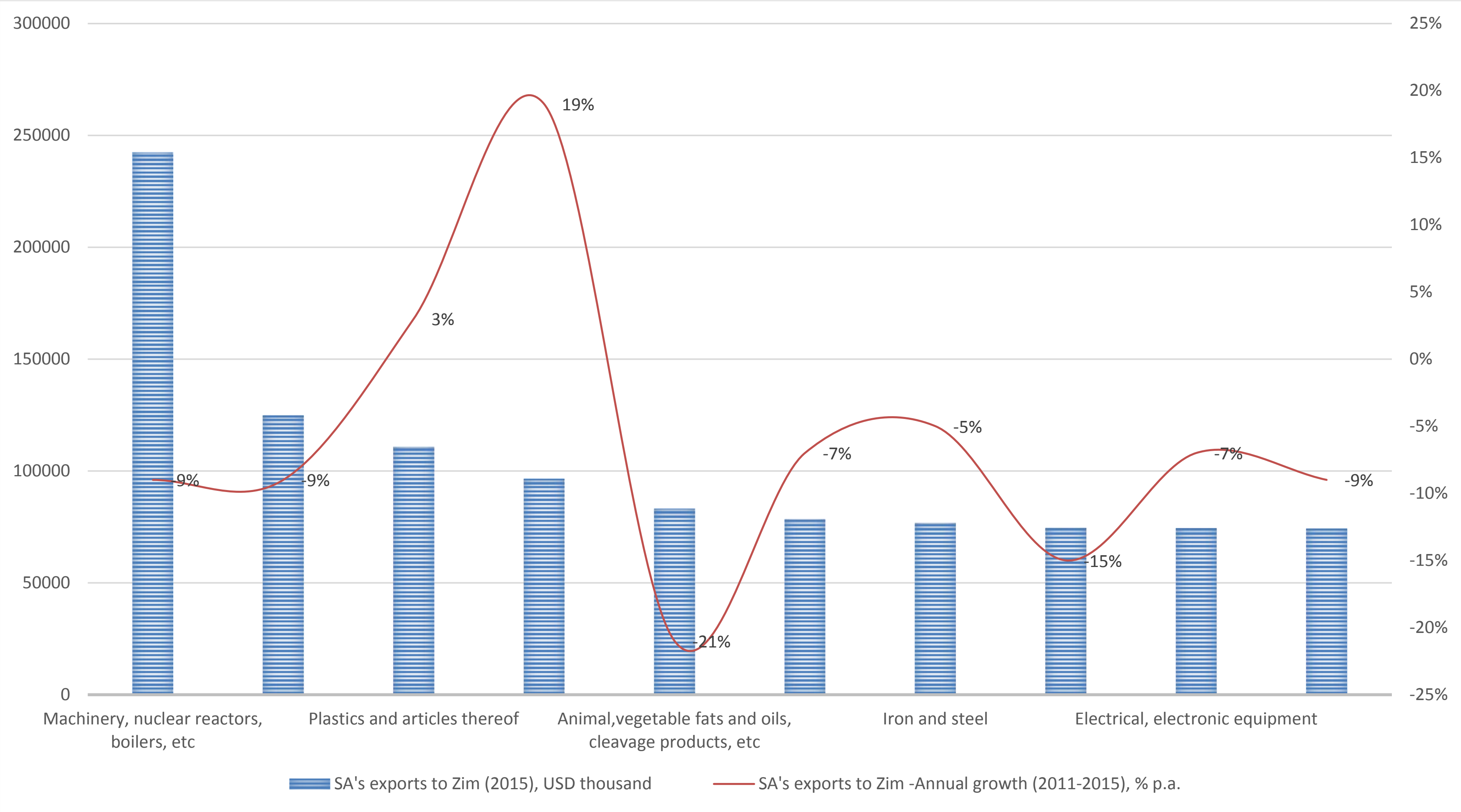
SOURCE: (Trade Map, 2016)

Figure 3: Top 10 import partners of Zimbabwe



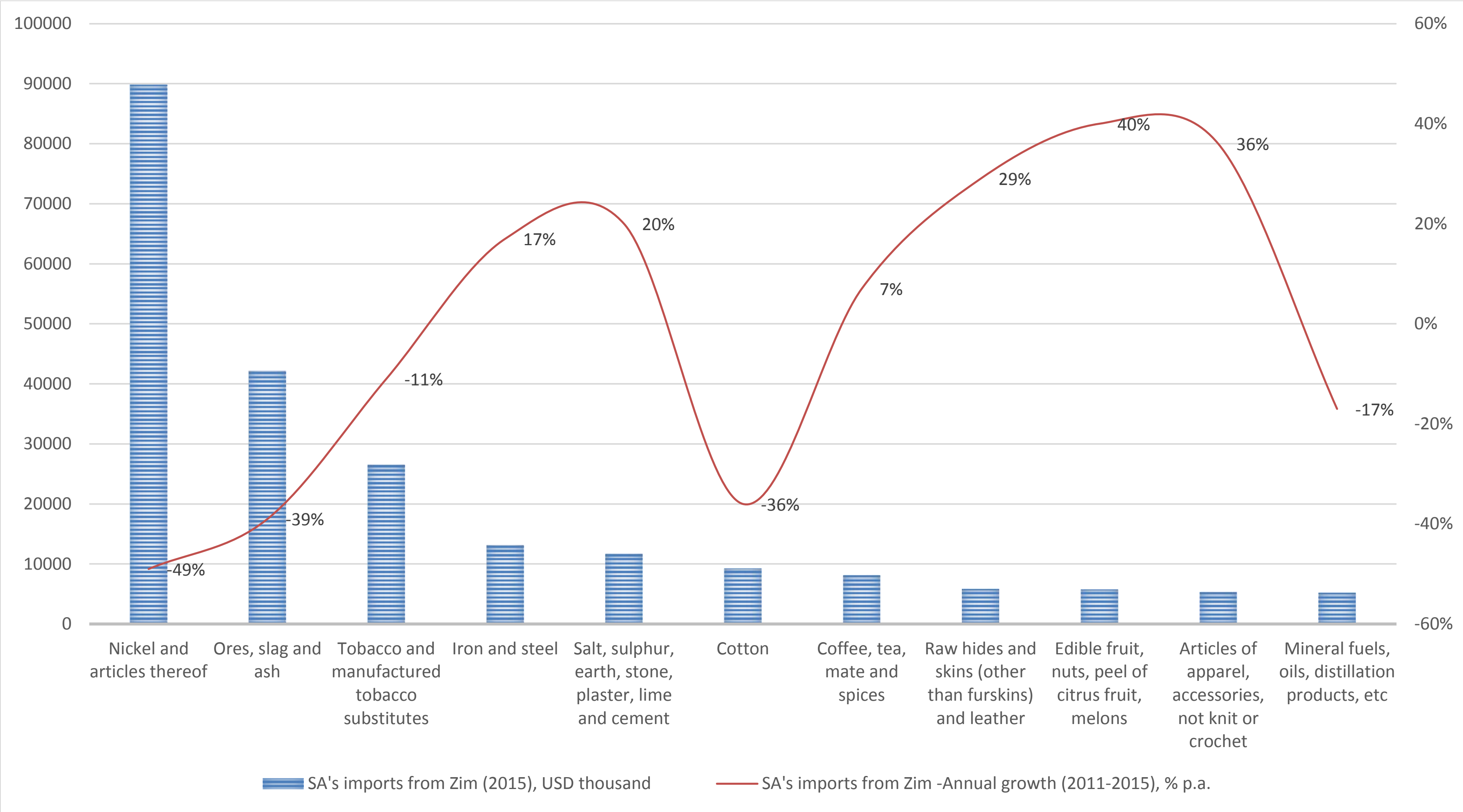
SOURCE: (Trade Map, 2016)

Figure 4: SA’s exports to Zimbabwe including a 5-year trend (USD thousand)



SOURCE*:* (Trade Map, 2016)

Figure 5: SA's imports from Zimbabwe including a 5-year trend (USD thousand)



SOURCE: (Trade Map, 2016)

Table 1: GCI: Rank and value of South Africa, Zimbabwe and Sub-Saharan Africa

Year	Zim rank	SA rank	Total countries	Zim index value	SA index value	SSA Avg. index value
2005-2006	110	40	117	3.2	4.4	2.1
2006-2007	112	35	122	3.3	4.5	2.2
2007-2008	129	44	131	2.9	4.4	2.2
2008-2009	133	45	134	2.9	4.4	2.6
2009-2010	132	45	133	2.8	4.3	2.6
2010-2011	136	54	139	3.0	4.3	3.0
2011-2012	132	50	142	3.3	4.3	3.1
2012-2013	132	52	144	3.3	4.4	3.5
2013-2014	131	53	148	3.4	4.4	3.6
2014-2015	124	56	144	3.5	4.4	3.4
2015-2016	125	49	140	3.5	4.4	3.5

CALCULATED FROM: (World Economic Forum, 2016)

Table 2: Zimbabwe: Disaggregated Global Competitiveness Index

	Basic requirements (60%)				Efficiency enhancers (35%)						Innovation and sophistication (5%)	
Year	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**
2006-2007	99	83	119	107	90	115	117	77	101	85	94	87
2007-2008	122	88	131	120	102	128	127	90	124	92	111	107
2008-2009	126	88	134	113	107	133	127	90	129	133	124	119
2009-2010	118	101	133	119	111	130	125	98	130	130	121	124
2010-2011	105	129	139	126	115	130	129	105	135	134	119	122
2011-2012	97	127	136	123	118	124	130	104	128	133	120	117
2012-2013	101	129	122	119	118	133	139	109	120	135	128	127
2013-2014	101	128	114	116	124	130	140	109	112	136	126	127
2014-2015	113	126	87	106	118	133	137	112	109	132	130	125
2015-2016	**112**	129	**104**	**106**	117	**131**	134	124	118	115	**130**	128

SOURCE: (World Economic Forum, 2016)[2]

[2] The numbers in the column subheading represent the twelve pillars in the Global Competitiveness Report. These are: 1) Institutions; 2) Infrastructure; 3) Macroeconomic environment; 4) Health and primary education; 5) Higher education and training; 6) Goods market efficiency; 7) Labour market efficiency; 8) Financial market development; 9) Technological readiness; 10) Market size; 11) Business sophistication; 12) Innovation.

Table 3: List of South African products banned by Zimbabwe

Product description	SA's exports to Zimbabwe (2015) (USD thousand)	Share in Zimbabwe's imports (%)	Equivalent ad valorem tariff applied to SA by Zimbabwe (%)
Fertilisers	31 301	50%	0
Coffee creamers (Cremora)	20 808	95%	0
Mayonnaise	16 664	90%	3
Plastic pipes and fittings	15 131	67%	3
Camphor creams	14 517	93%	8
Steel roofing sheets	4 190	67%	2
Shoe polish	3 897	98%	0
Potato crisps	3 889	65%	10
Cereals	3 885	70%	10
Cheese	2 651	99%	0
Petroleum jellies and body creams	2 128	100%	0
Furniture	1 626	58%	10
Flash doors	1 386	92%	0
Canned fruits and vegetables	1 150	84%	0
Dining room suites	885	38%	0
Structures and parts of structures of iron or steel	853	70%	8
Tile adhesive and tylon	814	93%	0
Pizza base	774	93%	48
Woven fabrics of cotton	681	20%	0
Wheelbarrows	672	70%	15
Beds and wardrobes	561	48%	10
Tissue wadding	519	91%	10
Bottled water	514	77%	0
Baked beans	511	99%	0
Office furniture	344	42%	10
Peanut butter	303	99%	0
Jams	243	57%	25
Flavoured milks	235	100%	0
Dairy juice blends	197	96%	0
Yoghurts	185	100%	32
Ice creams	161	99%	0
Flat rolled steel	75	82%	5
Baler and binder twine	70	96%	0
Synthetic hair products	10	0%	0
Total	**131 830**	-	-
Average	-	**66.68**[3]	**6.13**

CALCULATED FROM: (Trade Map, 2016)

[3] Weighted average of all products

Table 4: Trade indicators for selected SADC countries (USD million)

	Zimbabwe	Botswana	Mozambique	South Africa	Zambia	Average[4]
Total exports	2 704	7 915	3 196	69 631	9 688	7 990
Total imports	6 002	7 830	7 908	79 591	9 539	10 131
Trade balance	-3 298	85	-4 712	-9 960	149	-2 140
GDP	13 893	15 880	14 689	312 798	26 963	32 847
Weighted avg. tariff (%)	5.43	0.61	-	3.88	-	4.99
Trade (% of GDP)	75	118	92	63	79	105.52
Exports (% of GDP)	19.46	49.84	21.76	22.26	35.93	24.32
Imports (% of GDP)	43.20	49.31	53.84	25.44	35.38	30.84
Year of data	2015	2014	2015	2015	2015	

CALCULATED FROM: (World Bank, 2016); (CIA, 2016)

[4] Calculated as an average between all 15 SADC member countries using the latest reported data by the World Bank and the CIA World Factbook.

Table 5: Top 10 export partners of Zimbabwe (2015)

	Export volume (USD million)	% of total exports
South Africa	1 922.33	71.09
Mozambique	408.88	15.12
United Arab Emirates	147.96	5.47
Zambia	92.15	3.41
Botswana	30.80	1.14
Belgium	18.82	0.70
Namibia	13.74	0.51
Israel	13.69	0.51
Netherlands	4.58	0.17
China	4.44	0.16

CALCULATED FROM*:* (World Bank, 2016)*;* (CIA, 2016)

Table 6: Top 10 import partners of Zimbabwe (2015)

	Import volume (USD million)	% of total imports
South Africa	2 304.88	38.40
Singapore	1 338.22	22.30
China	458.16	7.63
Zambia	277.47	4.62
India	237.69	3.96
Mozambique	170.81	2.85
Japan	129.80	2.16
United Kingdom	98.19	1.64
Hong Kong	90.19	1.50
United Arab Emirates	79.70	1.33

CALCULATED FROM: (Trade Map, 2016)