NCC

NATIONAL COMPETITIVENESS COMMISSION

"Enhancing Zimbabwe's Global Competitiveness"

Competitiveness Bulletin

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NATIONAL COMPETITIVENESS COMMISSION

Enhancing Zimbabwe's Global Competitiveness

COMPETITIVENESS BULLETIN

"Operationalisation of the African Continental Free Trade Area: A Wake-up Call to Zimbabwe's Competitiveness"

OCTOBER – DECEMBER 2022

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1. INTRODUCTION

1.1 The African Continental Free Trade Area Agreement, which was signed in March 2018 and ratified by Zimbabwe in May 2019, among other 45 countries[1] out of the 55 African Member States, seeks to accelerate and boost intra-Africa trade. According to the World Bank 2020 report, if implemented fully, the trade pact could boost regional income by $450 billion and lift 30 million people out of extreme poverty by 2035.

AfCFTA

"AfCFTA is projected to boost regional income by $450 billion and Zimbabwe's income by 14% by 2035".

1.2 The World Bank report indicates that Zimbabwe and Côte d'Ivoire, where trade costs are among the Continent's highest would see the biggest gains of the African Continental Free Trade Area (AfCFTA), with each increasing income by 14%. The AfCFTA is widely seen as a crucial driver for economic growth, industrialization, and sustainable development in Africa. However, countries should be prepared through addressing bottlenecks with a view to tap into the opportunities offered under the Agreement.

1.3 To this end, the main objective of this Bulletin is to assess the likely implications of the operationalisation of the AfCFTA to Zimbabwe's competitiveness, particularly on international trade. In addition, the bulletin focuses on transport and utility infrastructure, where Zimbabwe is lagging compared with continental partners, and provides appropriate recommendations to enhance the country's competitiveness.

[1] Ghana; Kenya; Rwanda; Niger; Chad; Eswatini; Guinea; Cote d'voire; Mali; Namibia; South Africa; Congo. Rep; Djibouti; Mauritania; Uganda; Senegal; Togo; Egypt; Ethiopia; Gambia; Sahrawi Arab Democratic Republic; Sierra Leone; Burkina Faso; Sao Tome & Principe; Equatorial Guinea; Gabon; Mauritius; Central African Republic; Angola; Lesotho; Tunisia; Cameroon; Nigeria; Malawi; Zambia; Algeria; Burundi; Seychelles; Tanzania; Cape Verde; DRC; Morocco; Guinea-Bissau; Botswana and Comoros.

2. AFRICAN CONTINENTAL FREE TRADE AREA AGREEMENT

2.1 The AfCFTA is the world's largest free trade area since the establishment of the World Trade Organization (WTO) in 1994. The Agreement stands as a flagship project of the African Union's Agenda 2063, which envision the attainment of inclusive and sustainable development of the African continent over the next 50 years. Broadly, the Agreement seeks to:

- Create a single continental market for goods and services with free movement of business persons and investments;
- Expand Intra-African Trade across RECs and the Continent in general;
- Enhance competitiveness and support economic transformation; and
- Promote Industrial Development.

2.2 The operational phase of the AfCFTA Agreement was officially launched on 7 July 2019. However, trading under the Agreement was delayed due to COVID-19, among other factors. Actual trade under the Agreement commenced on 7 October 2022 on an 8-country pilot phase namely Rwanda, Cameroon, Egypt, Ghana, Kenya, Mauritius, Tunisia, and Tanzania. This initial implementation phase seeks to test the environmental, legal and trade policy basis for intra-African trade. Evaluation of the pilot phase is expected to inform the full-scale roll-out programme of the AfCFTA Agreement.

> *Implementation of AfCFTA Agreement kick started in October 2022 with pilot projects in Rwanda, Cameroon, Egypt, Ghana, Kenya, Mauritius, Tunisia and Tanzania*

2.3 Pursuant to the above, Zimbabwe being a signatory of AfCFTA, this implies that inefficient producers are at risk of competition from established and efficient producers from abroad that enjoy advantages of economies of scale. Table 1 compares prices of basic commodities for Zimbabwe against regional partners.

Table 1: Basic Commodities Price Comparison: December 2022

Product	Zimbabwe (US$)	South Africa (US$)	Zambia (US$)	Tanzania (US$)	Zimbabwe product price competitiveness Rank (Out of 4)
Rice/2Kg	2,84	2,18	4,06	2,22	3
Beef/ 1Kg	6,02	9,58	5,81	6,43	2
Salt/2Kg	0,64	0,84	1,82	0,43	2
Sugar 2kg	3,50	3,16	3,92	2,58	3
Cooking oil/2Kg	5,70	6,64	12,58	5,14	2
Milk/1L	2,08	1,07	2,18	1,93	3
flour	2,87	2,14	3,92	1,28	3
Eggs	5,26	5.08	5,90	6,85	2

Source: NCC compilation

Implications

2.4 The operationalisation of the AfCFTA implies that the Government would no longer be able to cushion local producers from intense foreign competition through trade protectionist policies such as import tariffs and licences as they harbour inefficiencies.

2.5 Resultantly, enhanced competitiveness becomes critical for Zimbabwe business to compete globally, through adaptation and investing in latest technology, new methods of doing business and improve production methods.

2.6 Of importance, rational consumers in general, prefer quality competitive commodities. Given opportunity to choose, consumers would go for cheaper quality goods and forgo expensive poor-quality products. The advent of international trade means that commodities can sell anywhere irrespective of physical boundaries.

2.7 However, countries have got tendances of protecting host industries. For instance, trade protectionist policies such as the Statutory instrument 237A of 2018 provide reluctance to change their way of doing things possibly because of lack of competition. Such tendencies, especially in Zimbabwe, have been condemned for harbouring inefficiency in local companies, and will be difficult due to AfCFTA.

3. OVERVIEW OF ZIMBABWE'S COMPETITIVENESS

3.1 Zimbabwe's competitiveness when ranked with other global, continental, and regional partners is unfavourable. At global level, Zimbabwe in 2019[2], was ranked number 127 out of 141 world countries. At continental and regional levels, SADC, and COMESA in particular, the country was ranked number 28 out of 38 recorded African countries. In addition, the country is also ranked number 9 and 11 out of 15 recorded SADC and COMESA countries in 2019, respectively. These statistics indicate that Zimbabwe is less competitive than counterparts at regional, continental, and global level.

3.2 As part of the nation's development path as outlined under the Vision 2030 and National Development Strategy 1, AfCFTA speaks to the national development trajectory. The country has put in place all the pillars that will help in taking advantage of this Agreement from the production side up to marketing. One of such pillars is the competitiveness aspect that is being spearheaded by the Commission.

> *AfCFTA speaks to the national development trajectory under the Vision 2030 and NDS 1*

3.3 Competitiveness is an important aspect in development that all countries are seized with given its ability to create and shape the nation's productive and trading environment both legislatively and policy wise. Capital investment, both domestic and foreign, will be attracted to competitive environments with the highest possible returns, thereby resulting in more value creation and prosperity for such countries.

3.4 In view of the country's unfavourable global competitive rankings, the Government is implementing commendable policies and strategies aimed at improving the country's competitiveness. The policies include the Zimbabwe National Industrial Development Policy (2019 – 2023) and the Zimbabwe National Trade Policy (2019 – 2023), which are being complemented by the Export Development Strategy (2019 – 2023) and the following strategies, among others. However, industry is urged to take up the opportunities provided

[2] World Economic Forum, Global Competitiveness Report 2019

by these policies and also to invest in modern technologies to enhance productivity and viability in order to with stand external competition.

Import Substitution Strategy

3.5 As part of supporting Government's efforts to scale up local production and to propel the country 's modernization and industrialization agenda, the Government developed a strategy aimed at substituting imports with locally produced goods.

Local Content Strategy

3.6 The Government, through the Ministry of Industry and Commerce is supporting the implementation of the Local Content Strategy aimed at strengthening local value chains and operationalization of value chain finance models through creation of an enabling environment for business to support backward and forward linkages.

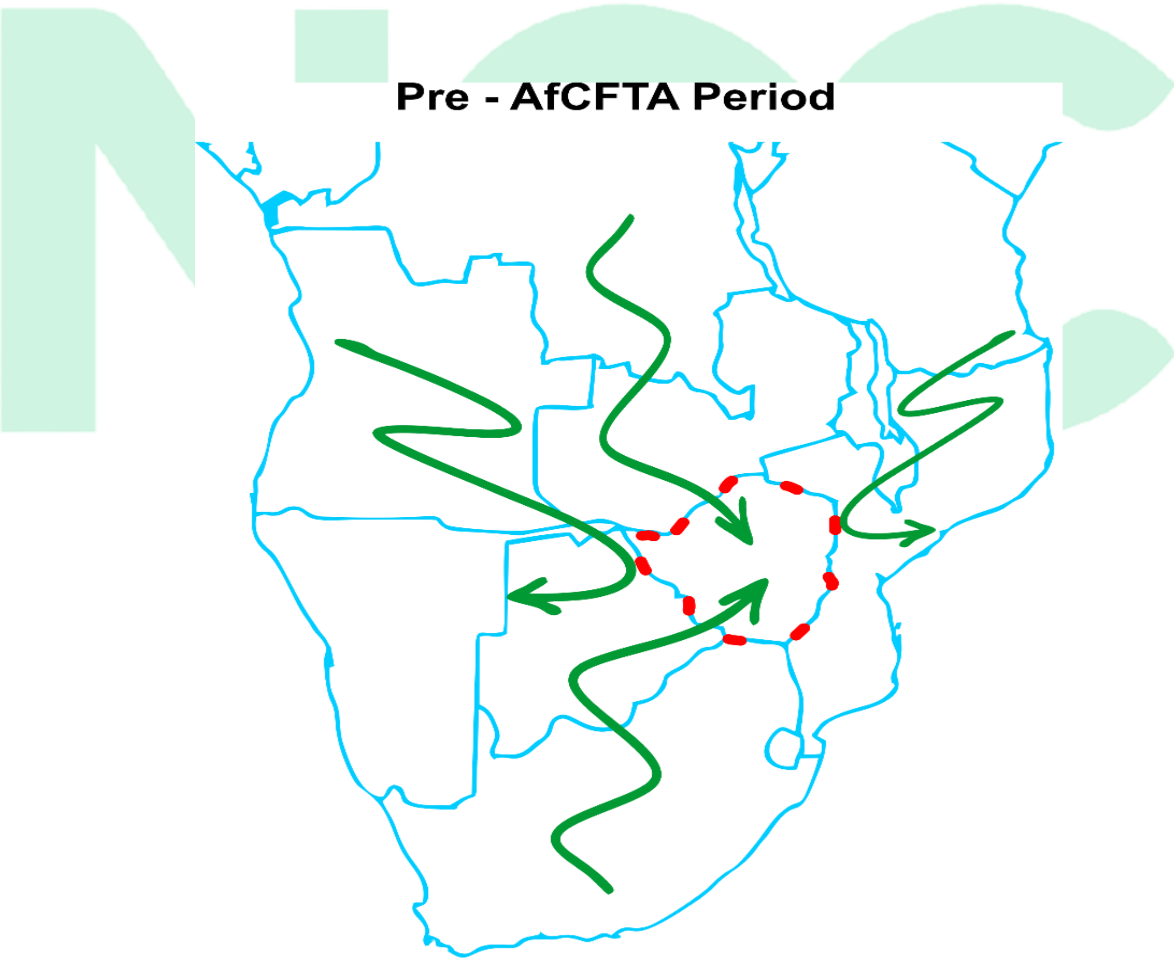
4. CONCEPTUALISING IMPLICATIONS OF AFCFTA OPERATIONALISATION ON COMPETITIVENESS OF ZIMBABWE'S PRODUCTS

4.1 The operationalisation of the AfCFTA has 2 potential effects on competitiveness of products of the African origin. Firstly, there is scope that the AfCFTA can encourage countries to become competitive due to fear of losing market. Alternatively, the AfCFTA can exacerbate African countries' competitiveness.

Pre-AfCFTA Period

4.2 The period portrays trading circumstances before operationalisation of the AfCFTA Agreement. Figure 1 depicts the pre-AfCFTA trading environment where countries are at liberty to regulate trade. As such countries were able to deter the entry of some products and permit others through imposing trade tariffs and import duties to protect local industry.

Figure 1: Pre - AfCFTA operationalisation period



Source: NCC Compilation

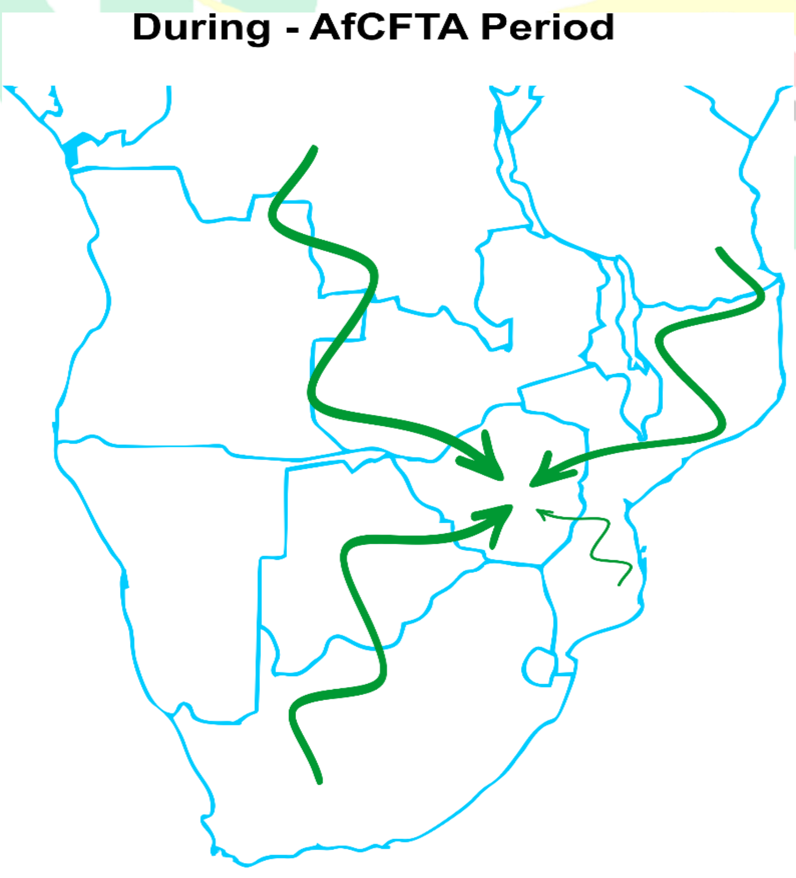
4.3 During this period, Zimbabwe can regulate its trade from across the Continent save for the COMESA and SADC regions to which the country subscribes. The Government can either protect its domestic industries or open it to the Continental trade environment. Thus, not all goods from across the Continent were allowed into Zimbabwe. Some were barred from entering the country while others were not. A good example is that of an import ban of basic commodities under the SI 237A of 2018.

4.4 Zimbabwe, as a result, was able to protect weak sectors of the economy such as the manufacturing sector from continental competition and give them space to grow and become competitive. Again, such protection could also harbour inefficiency in domestic industries. Without competition, industries are often reluctant to innovate and become competitive.

AfCFTA-Activated Period

4.5 This period is associated with the removal of tariffs or import duties on products of the African origin. As a result, regulating trade through import tariffs is no longer an option.

Figure 2: Trading circumstances during the AfCFTA operationalisation period.



Source: NCC Compilation

4.6 Although the AfCFTA is on a pilot phase, the implementation of the AfCFTA implies the following:

Worsening the country's competitiveness

4.7 Zimbabwe is open to the continental competition. Such competition, depending on the country's state of industry, negatively impacts on production, productivity and competitiveness resulting in the country relying on imports.

Improving the country's competitiveness

4.8 Intense competition from across the continent can stimulate competitiveness. Without competition, industries sometimes become reluctant to innovate and change way of doing things. Given that conducive policy environment is in place among other fundamental competitiveness factors, the operationalisation of the AfCFTA is bound to stimulate Zimbabwe's competitiveness.

5. THE NEXUS BETWEEN INFRASTRUCTURE, TRADE AND COMPETITIVENESS

5.1 Infrastructure is one of the key factors that influences competitiveness of a country. The World Economic Forum's Global Competitiveness Index (WEF's GCI) recognizes infrastructure as a competitiveness pillar under the enabling environment category.

5.2 In turn, the National Development Strategy 1 (NDS1) also prioritizes the improvement of the quality of infrastructure as a means of achieving sustainable long term economic growth and development through productivity enhancement and competitiveness. Infrastructure significantly influences the cost of doing business, productivity, and competitiveness.

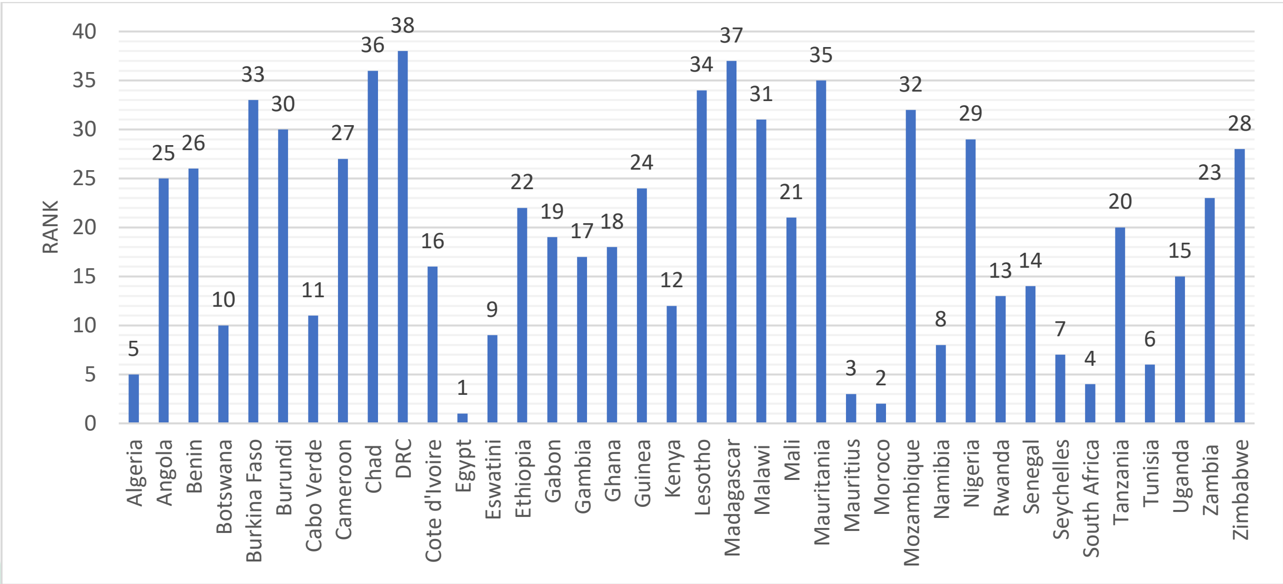
5.3 The WEF's GCI has classified infrastructure into two broad categories namely transport and utility infrastructure. Transport infrastructure mainly affects the distributional aspect of commerce whereas the utility infrastructure affects mainly the cost of production. Inappropriate transport infrastructure and poor utility infrastructure often gives rise to high cost of doing business. With acute costs, business rarely thrive and produce goods that are cost, price and quality effective. The high cost of doing business leads to production of uncompetitive goods which are costly to trade. Thus, infrastructure is a critical and necessary factor of productivity, competitiveness, and trade.

Zimbabwe-Africa Infrastructure Analysis

5.4 Based on the 2019 Global Competitiveness Report, Zimbabwe was ranked number 28 out of 38 surveyed African countries as shown in Figure 3. This means that the country is lagging in terms of modernising its infrastructure like other African counterparts.

> *Zimbabwe is lagging in infrastructure modernisation and was ranked number 28 out of 38 African countries in 2019*

Figure 3: Zimbabwe Infrastructure Ranking vs African Countries, 2019



Source: NCC Compilation using 2019 GCI Report

5.5 Figure 3 indicates that within Africa, Egypt followed by Morocco, Mauritius, South Africa, and Algeria are the top 5 countries with good and quality infrastructure.

5.6 This implies that Zimbabwe can produce and export to only 10 African countries where its products are relatively competitive. Much more relatively competitive products would be coming from the 27 top ranked countries. This indicates that Zimbabwe's infrastructure ranking position is not good when viewed from a continental perspective.

5.7 However, it is important to note that Zimbabwe is currently seized with huge infrastructure rehabilitation, upgrading as well as modernisation. These developments are expected to support competitiveness and improve the country's infrastructure rankings on the Global Competitiveness Index. Major infrastructure developments currently underway include the following, among others:

Zimbabwe embarks on massive infrastructure rehabilitation, upgrading and modernisation to improve the country's infrastructure rankings and enhance competitiveness

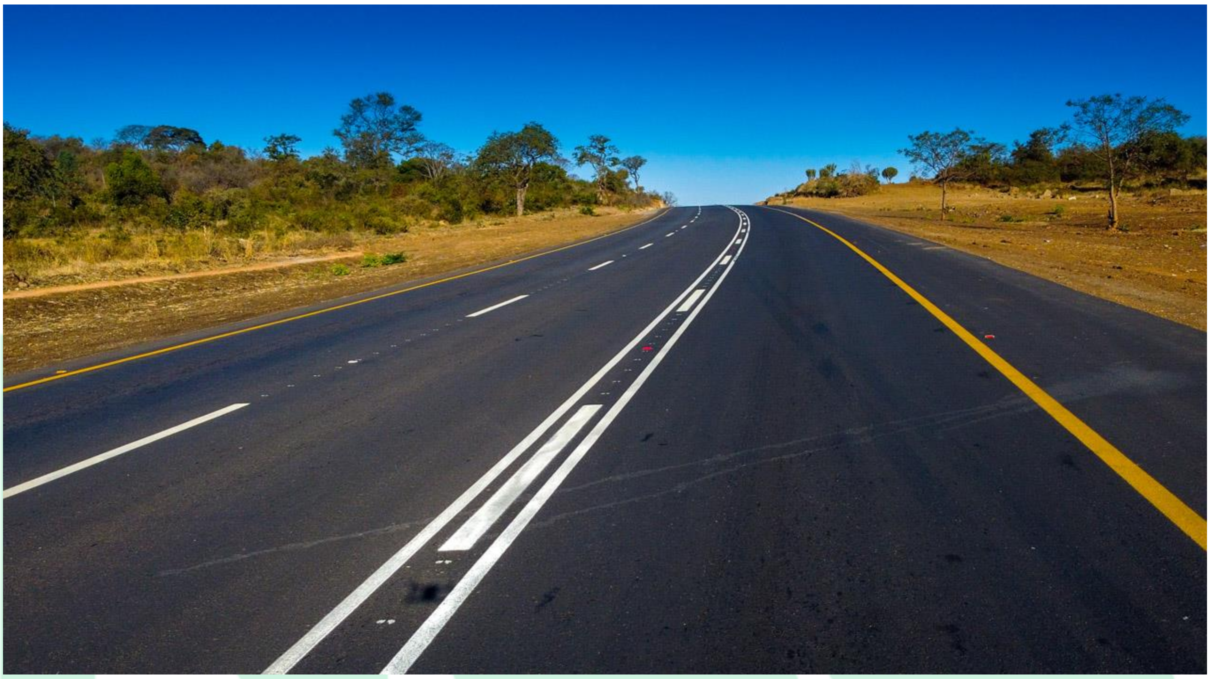
Road construction, upgrading and rehabilitation.

5.8 In an effort to enhance competitiveness, the Government of Zimbabwe has in the past 5 years been engaged in rigorous road construction, upgrading and rehabilitation programmes. The major works showed a sound understanding of the important link between good road network, competitiveness, trade, and development. There exists a direct relationship between transport infrastructure and product competitiveness.

5.9 A country which seeks to improve its trade and development should start from the co-peripheral factors such as the quality of transport infrastructure in use. Cognisant of its dependents on road transport systems, Zimbabwe is heavily investing in infrastructure development particularly road construction, upgrading and rehabilitation. Major developments in road construction, upgrading and rehabilitation include, among others:

Harare -Beitbridge Highway

5.10 The importance of this trunk road is that it connects Zimbabwe to the rest of countries north of the Zambezi River, with those countries in the north also connected to South Africa and its various seaports. Reconstruction of this important road is earmarked to reduce transport costs and increase supply delivery speed. These factors are key in reducing and increasing product price and quality respectively.



Beitbridge Border Modernisation Project

5.11 To improve the ease of doing business and competitiveness the country is modernisation Beitbridge Border Post. Beitbridge is an important gateway in the SADC region considering that it is the busiest inland port. The border is being modernised under a US$300 million facility through a 17-year Built Operate and Transfer (BOT) arrangement between the Government and ZimBorders Consortium.

Robert Gabriel Mugabe International Airport Rehabilitation project

5.12 The international terminal building and the domestic terminal building is being refurbished to increase the airport's holding capacity to six million people per annum from 2,5 million. Upgrading and rehabilitation works on small airports like the Buffalo Range Airport in Chiredzi, to enable the runaway to accommodate bigger aircraft are critical towards recovery of the tourism industry as Covid-19 retreats globally. All these developments are aimed at easing the doing business in Zimbabwe, which is expected to translate into increased competitiveness.

Water Infrastructure Developments

5.13 Water is a critical factor of production. Thus, access to cheap reliable water is key for sustainable production and product quality. As such irrigation acts as a mitigating measure against droughts and mid-season dry spells which negatively affects product quality and competitiveness. In addition, water is a key resource in the generation of hydroelectricity, which is critical for production. Unavailability of electricity may push producers to resort to alternative expensive energy sources thereby negatively affecting product quality and cost, hence competitiveness.

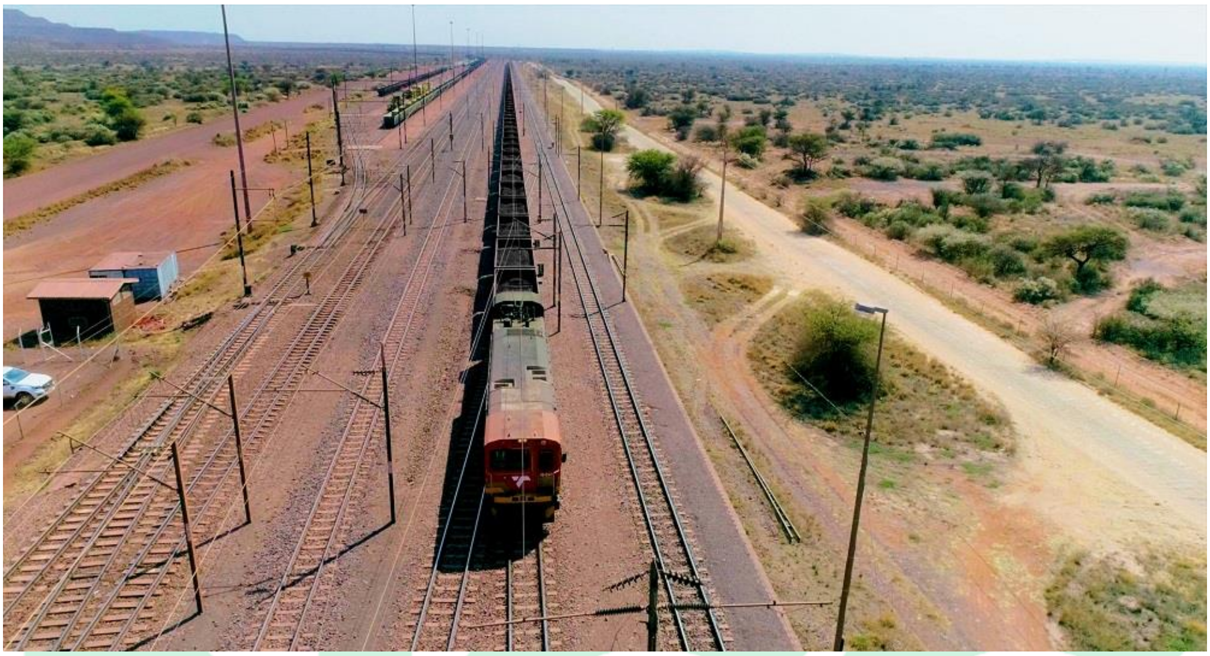
5.14 To this end, Government is also seized with water infrastructure development projects aimed at improving water supply across the country. The following projects are currently under construction and rehabilitation:

- Gwayi-Shangani Dam in Matabeleland North province.
- Muchekeranwa Dam, which lies between Mashonaland East and Manicaland provinces;
- Tokwe-Mukosi Dam in Masvingo Province; and
- Plans are underway to build Runde-Tende Dam on the confluence of Runde and Tende rivers in southwestern Chivi in Masvingo province.

Rail Infrastructure Developments

5.15 Zimbabwe's major rail network that links major cities has been declining over the years due to lack of rehabilitation, maintenance, and vandalism. This has seen freight carriage falling from a peak of 18 million tons in 2007 to an average of 2.4 million tons per annum as at

December 2022, thus exerting pressure on the country's road network and negatively impacting on competitiveness.



"Rail infrastructure in Zimbabwe is dilapidated, thereby exerting pressure on the country's road network and negatively impacting on competitiveness".

5.16 However, the National Railway of Zimbabwe (NRZ) has opened investment opportunities to organisations with the capacity to generate funding for the recapitalization initiative with a view to restoring operational capacity and capability to profitably support economic activity through public transportation of bulk goods and passengers. Increasing NRZ capacity have got the following benefits, which enhances industrial productivity and product competitiveness:

- Reduced operating costs for industry due to lower rail average transportation costs;
- Improved rail infrastructure and equipment and rejuvenate the existing infrastructure and equipment resulting in reliable, safe and efficient bulk transportation service for industry and economy at large;
- Time savings in terms of transit times to move goods and passengers from origin to destination; and
- Improved productivity and employment of more workers.

Energy Infrastructure Developments

5.17 Zimbabwe continuously faces power shortages, generating an average of 725MW, against an estimated peak demand of 2200MW and is currently importing 300 MW of electricity from Mozambique, South Africa, and Zambia. Zimbabwe`s electricity is expensive relative to its major trading partners such as South Africa, Botswana, and Zambia. For instance in 2022, the country has a relatively high electricity tariff of USc13/kWh compared to the average regional tariff of USc11.72/kWh. The high cost of electricity increases cost of production which in turn weighs on competitiveness of the local industry.

5.18 It is critical to note that electricity is among the key inputs in the production of goods and services, which enhances competitiveness. Sustainable economic growth and development, is therefore, anchored on affordable, reliable and stable supply of electricity to industry and households. This requires investment in renewable energy and utilization of existing water bodies to generate electricity.

6. CONCLUSION AND RECOMMENDATIONS

6.1 The country is implementing policies and strategies to enhance productivity and competitiveness as well as investing in the road and utility infrastructure improvement. The current momentum in infrastructure development, is expected to improve Zimbabwe's competitiveness, which would also assist the country in trading under the AfCFTA regime.

6.2 To complement these Government efforts, NCC recommends the following, among others:

- Continued implementation of Government policies on enhancing competitiveness, in collaboration with the Private Sector and relevant stakeholders;
- Private sector urged to take advantage of the current policies being implemented in order for the industry to realize the full benefits of the AfCFTA Agreement;
- Continued investment in rehabilitation, upgrading and construction of new roads;
- Pursuing other financing options such as loan financing and PPPs in resuscitating rail and air infrastructure and services;
- Availing land to potential investors in renewable energy;
- Charging cost reflective tariff to attract investment in infrastructure development; and
- Utilizing existing water bodies such as Tokwe-Mukosi dam to generate electricity.

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