NATIONAL COMPETITIVENESS COMMISSION

Enhancing Zimbabwe's Global Competitiveness

ANALYSIS OF THE IMPACT OF THE SOUTH AFRICAN RAND DEPRECIATION ON THE COMPETITIVENESS OF ZIMBABWEAN INDUSTRIES

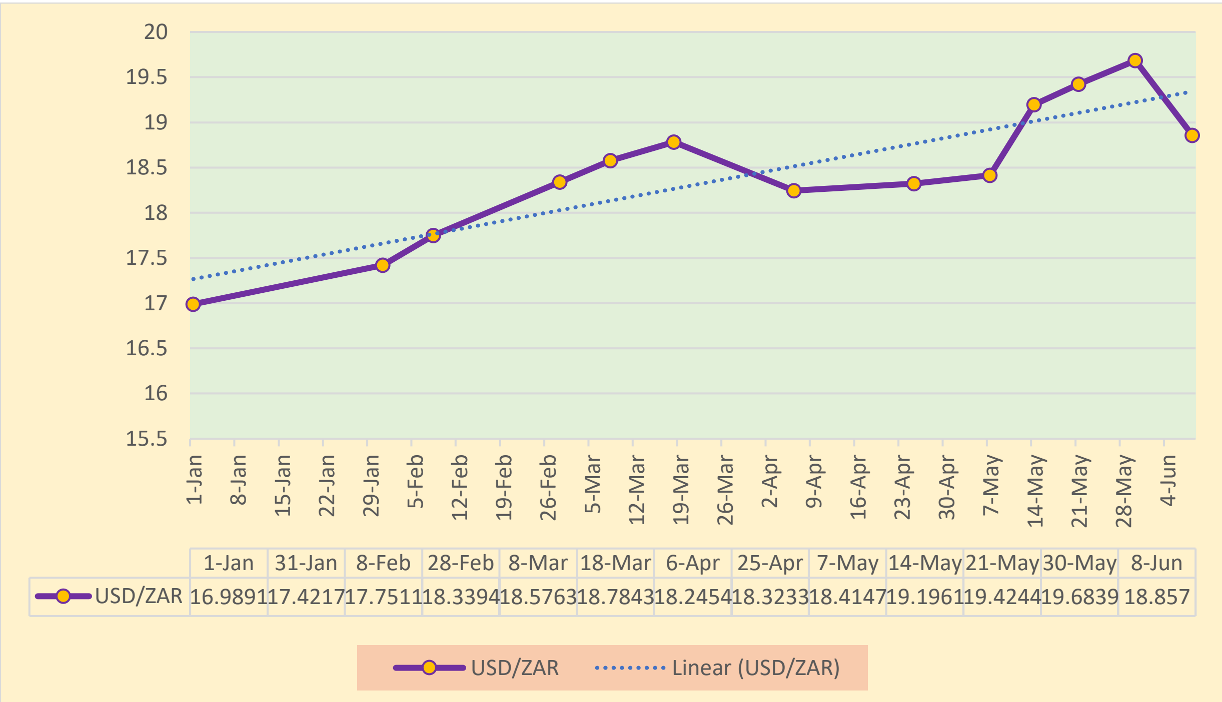
31 May 2023

1.0 Introduction.

1.1 The South African rand is depreciating against global currencies, breaching the US$/R19.60 mark as at 30 May before fluctuating to around US$/R18.857 in June 2023. The depreciating South African Rand against the United States Dollar (USD) is anticipated to have impact on the competitiveness of Zimbabwean businesses, given that about 70% of local transactions are in USD and that South Africa is a major trading partner of Zimbabwe. This will also be exacerbated by the removal of import licences and duties, as well as taxes on the importation of fourteen (14) basic commodities[1] by Government on 11 May 2023.

1.2 Figure 1 below shows trends in the exchange rate of the South African Rand against the American dollar for the period from January to May 2023.

Figure 1: Trends in the Exchange Rate of the South African Rand against the American Dollar, January – June 2023



Source: Exchange Rate UK

1.3 The figure depicts a persistent depreciation of the Rand from USD/ZAR16,9891 on 1 January to USD/ZAR 19,6839 as of 30 May 2023, before declining to USD/ZAR 18,857. The

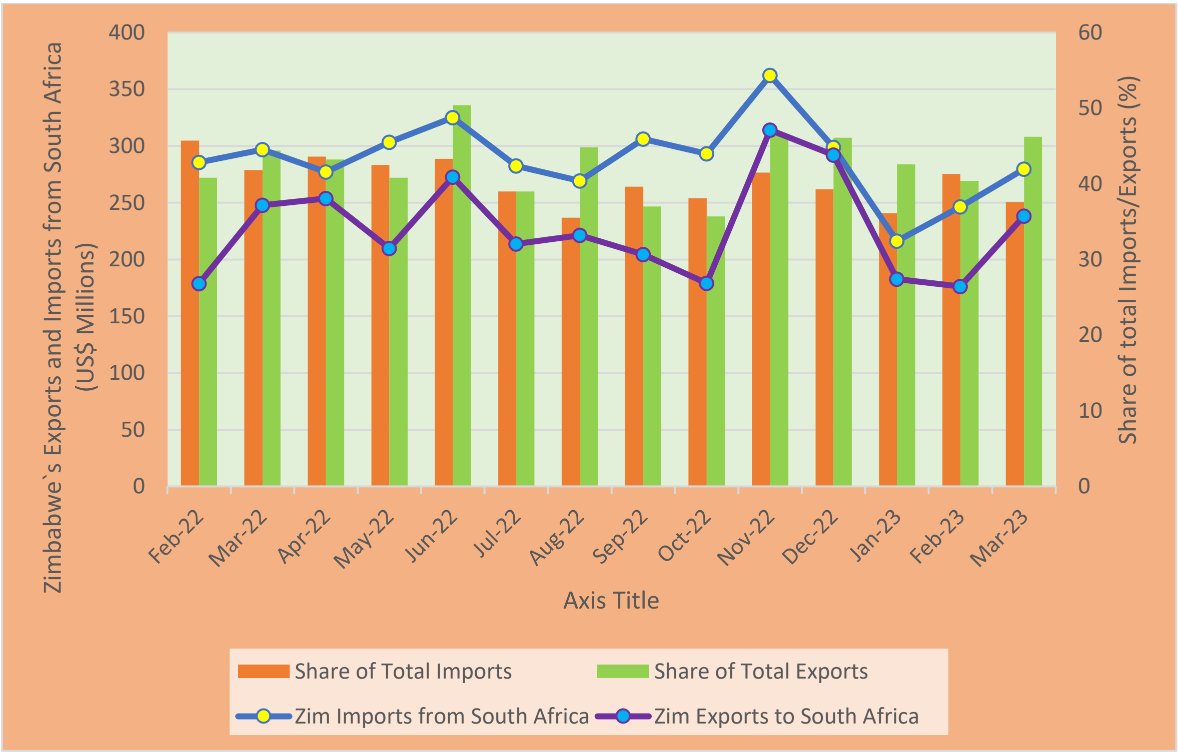
[1] Statutory Instrument 80 of 2023 include powdered milk, rice, maize meal, flour, laundry and bath soap, washing powder, cooking oil, cane sugar, salt, flour, rice, toothpaste and petroleum jelly.

depreciation is on an upward trend and is expected to reach USD/ZAR 20 due to the ongoing load shedding crisis, souring relations between South Africa and the USA, which is fuelling negative investor sentiment against the currency.

2.0 South Africa and Zimbabwe Trade

2.1 South Africa is Zimbabwe's largest trading partner and destination for 46,2% of exports and 37,6% of imports as at March 2023. Since 2007, South Africa has maintained a trade surplus against Zimbabwe, which widened over the period due to loss of competitiveness of the Zimbabwean industry and company closures as a result of economic instability. As shown by Figure 2, Zimbabwe exported a total of US$238,3 Million to South Africa against imports of US$279,6 Million causing a trade deficit of US$41,3 Million in March 2023.

Figure 2: Zimbabwe and South Africa trade Trends, February 2022 - March 2023.



Source: ZimStat

2.2 The figure shows that Zimbabwe imports more than it exports to South Africa over the period indicating a negative trade balance.

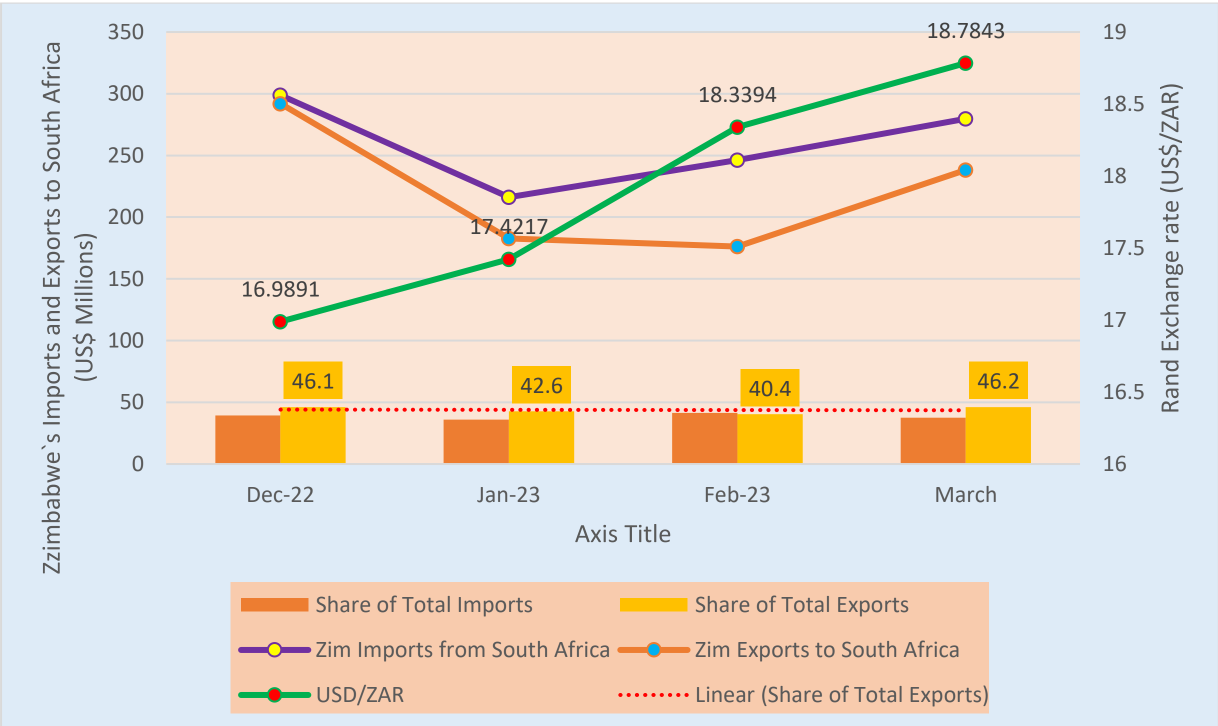
2.3 In March 2023, the top imports from South Africa were Nitrogenous Fertilizer, Delivery Trucks, Refined Petroleum, Electricity, and Soybean Oil while top imports of South Africa from

Zimbabwe were Coke, Raw Tobacco, Other Mineral, Other Vegetable Residues and Unglazed Ceramics (Observatory of Economic Complexity (OEC), 2023).

3.0 Possible Impact of Rand Depreciation on Zimbabwean Industry

3.1 Since Zimbabwe uses the USD$ as its base currency and imports more than it exports to South Africa, a depreciating Rand will have an immediate effect of making South African products cheaper and more competitive than Zimbabwean products. The result will be a jump in Zimbabwean imports from South Africa and increased competition for local firms from cheaper products in South Africa. Figure 3 depicts trade trend for Zimbabwe and South Africa and Rand Exchange rate movements for a 3 months period when intense Rand depreciation began.

Figure3: Zimbabwe and South Africa trade and Rand Exchange rate Trends: December 2022 – March 2023



Source: ZimStat, Exchange Rate UK

3.2 The Rand depreciated by 10,57% between December 2022 and March 2023. The 7.95% depreciation in the exchange rate value of the Rand from US$/ZAR16,9891 in December 2022 to US$/ZAR18,3394 in February 2023 resulted in abrupt changes in trade terms between Zimbabwe and South Africa. Zimbabwe`s imports from South Africa increased by 13,9% from US$216,2 million in January to US$246,3 million in February 2023 while exports to South

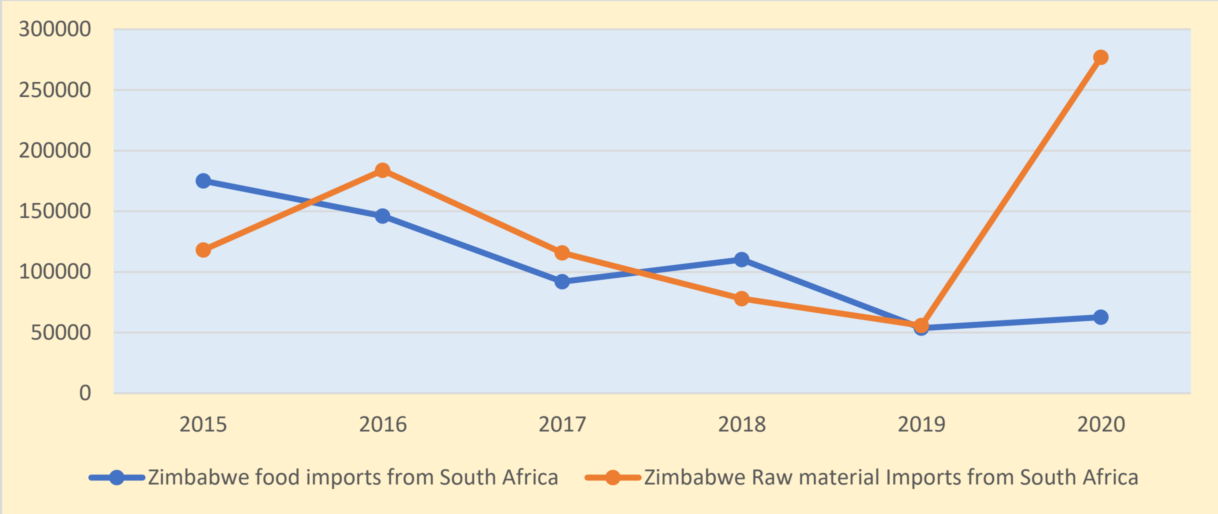
Africa declined by 3,6% from US$182,7 million in January to US$176,2 in February 2023. The Rand further depreciated by 2,43% between February and March 2023 but without a negative impact on trade.

3.3 South Africa`s share of Zimbabwe's exports was on a negative trend and declined from 46.1 % in December 2022 to 40.4% in February 2023 indicating a loss of competitiveness for Zimbabwean products and declining market and export sales to South Africa. The share of Zimbabwe`s imports from South Africa was on a rising trend and increased from 39.3% in December 2022 to 41.3% in February 2023 indicating rising demand and competitiveness for imports from South Africa. The trade terms however improved in March 2023 with aggregate exports rising and share of exports jumping from 40,4% in February to 46,2% in March 2023 in spite of a further 2,43% depreciation of the Rand

4.0 Impact of the removal of import licences, import duties and taxes on Zim-SA Trade

4.1 The removal of import licences, import duties and taxes on the importation of all basic commodities assists in enhancing the supply of basic goods to the public at a huge cost to the industry and the economy at large. The measure will subject local firms to unfair competition as they are subject to tax compliance and other regulations in production of the same goods. Imports will be more cheaper giving South African products to Zimbabwe an upper competitive edge. This is also exacerbated by high-cost base for Zimbabwe firms as they use the USD, which is a strong currency, to import input raw materials, working capital as well as payment of labours in some cases. Figure 4 depicts trends in Zimbabwe's imports of food products and raw material goods from South Africa for a 6-year period.

Figure 4: Trends In Zimbabwe's Imports of Food Products and Raw Material Goods From South Africa, 2015 -2020



Source: World Integrated Trade Solution (WITS)

4.2 The figure shows that food imports from South Africa have been declining over the period at the back of import substitution policies and improvement in capacity utilization by local firms, which saw over 70% of basic commodities being made by local firms. The local manufacturing sector had recorded an increase in production capacity from 36% before the COVID 19 pandemic period to 66% and now enjoys 80% shelf occupancy for local products from 47% during the same period.

4.3 Local firms may resort to import finished or semi-finished goods that require little or no value addition, in order to stay afloat, in the wake of the new competition. This will limit local value addition resulting in deindustrialization and rise in unemployment.

4.4 However, although food imports of Zimbabwe from South Africa have been on a general downward trend till 2019, the sharp increase in imports for general raw materials continued till 2023. In March 2023, the top imports from South Africa were Nitrogenous Fertilizer, Delivery Trucks, Refined Petroleum, Electricity, and Soybean Oil while top imports of South Africa from Zimbabwe were Coke, Raw Tobacco, Other Mineral, Other Vegetable Residues and Unglazed Ceramics,(Observatory of Economic Complexity (OEC), 2023).These raw material imports are crucial in the production process and are key determinants of competitiveness. The fact that South Africa is not importing foodstuffs from Zimbabwe indicates that they may be more competitive in food production than Zimbabwe.

4.5 On a positive note, the depreciating Rand means a decline in prices of the raw materials , working capital imported from South Africa, which helps to promote operational efficiency and provides room for local firms to enhance efficiency.

4.0 Conclusion and recommendations

The depreciating Rand has a negative impact on the competitiveness of Zimbabwean businesses. The move by Government on the removal of import licences, import duties and taxes on the importation of all basic commodities will intensify competition for local firms and choke the local industry.

The depreciation may, however, benefit consumers and industry in terms of cheap basic commodities and raw material imports from South Africa**.** In that regard, the Commission recommends the use of policy measures aimed at promoting local production rather than removal of import duties and taxes on imports. This is critical for employment, increased production and economic growth.