NATIONAL COMPETITIVENESS COMMISSION

Enhancing Zimbabwe's Global Competitiveness

ANALYSIS ON THE IMPACT OF REMOVING TARRIFS ON GOODS IMPORTED FROM THE UNITED STATES OFAMERICA ON BUSINESS COMPETITIVENESS

April 2025

1.0 Introduction

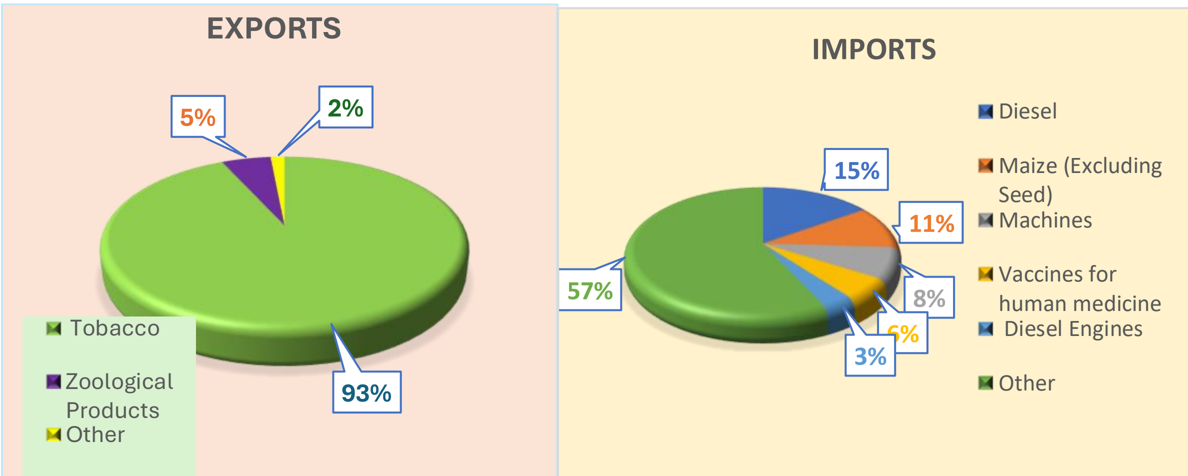
1.1 Government removed tariffs on American products entering Zimbabwe in response to the imposition of an 18% reciprocal tariff on Zimbabwe`s exports to the United States of America (USA). The country previously had a 35% tariff on American products. The suspension of all tariffs levied on goods originating from the United States is intended to facilitate the expansion of American imports within the Zimbabwean market and demonstrates Zimbabwe's commitment to a framework of equitable trade and enhanced bilateral co-operation.

1.2 However, tariff suspension in Zimbabwe, while potentially leading to lower consumer prices and increased trade, could also negatively impact domestic industries and potentially lead to a decline in Government revenue**.**

2.0 Analysis of Zimbabwe-USA Trade Patterns

2.1 The overall trade volume between Zimbabwe and the USA has generally been modest compared to Zimbabwe's trade with other countries, with South Africa being the biggest trading partner. Figure 1 summarises Zimbabwe`s exports and imports with the USA.

2.2 **Figure 1: Zimbabwe`s Exports and Imports with the USA**

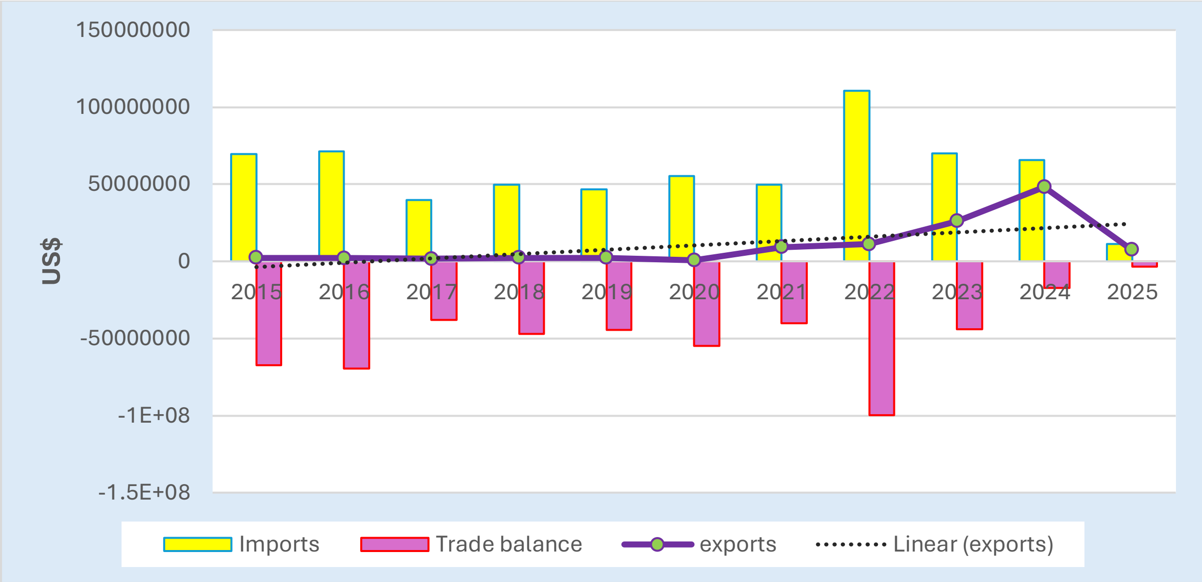


Source: ZIMSTAT

2.3 Figure 1 depicts that the country's exports to the USA are mainly tobacco and zoological products. Zimbabwe imports several products ranging from semi-finished and finished products from the USA including machinery, pharmaceuticals, and diesel engines, among others.

2.4 Figure2 depicts trends in Zimbabwe`s trade with the USA.

Figure2: Zimbabwe`s Trade with the United States of America, 2015 - 2025



Source: ZIMSTAT

2.5 Figure 2 shows that imports were consistently much higher than exports, depicting a negative trade balance for Zimbabwe, of US$67 million in 2015 declining by 74.35% to US$17,3 million in 2024. The decline in the deficit is attributed to the gradual increase in exports on the back of falling imports. The imports decreased by 5.96 % from US$69,66 million in 2015 to US$ 65,5 million in 2024 while exports increased by 1984 % from US$2,3 million to US$48,1 million during the same period.

2.6 Given these dynamics, removing tariffs on imports from the USA can have the following several significant impacts on business competitiveness in Zimbabwe.

3.0 Impact on Business Competitiveness

Positive Impacts

Lower Costs for Businesses

3.1 Removing tariffs provide Zimbabwean businesses with the chance to import capital goods, machinery, and plant equipment or technology from the USA at a reduced cost, which reduces operational costs. This has a potential of increasing business competitiveness through reduced costs, which allow them to offer lower prices to consumers. The reduction of machinery and technology costs emanating from tariff suspension will contribute towards the modernisation of Zimbabwe's industries, which promotes re-industrialisation in line with the objectives of the

Zimbabwe Industrial Reconstruction and Growth Plan (ZIRGP) 2024-2025, National Development Strategy 1 (NDS I) (2021 – 2025) and the overall Vision 2030.

Market Expansion

3.2 Eliminating tariffs and reducing the cost of imports may encourage business firms to diversify their product lines, possibly leading to new market opportunities both domestically and in export markets which enhance overall business competitiveness. Product diversification enhances business competitiveness by reducing reliance on a single revenue stream, mitigating market risks, and capturing new customer segments.

3.3 By expanding into complementary products or markets, for instance, a sugarcane farmer producing ethanol or molasses, businesses leverage existing resources, improve resilience to price fluctuations and capitalize on emerging opportunities. Diversification also fosters innovation, strengthens brand value, and creates economies of scale, giving firms an edge over rivals in dynamic markets like Zimbabwe's agribusiness sector.

Increased Access to Quality Goods

3.4 Removing tariffs make it easier for Zimbabwean businesses to access high-quality goods and technology from the USA. This leads to improvements in product quality and innovation, which enhance competitiveness.

3.5 Enhanced product quality and innovation sharpen business competitiveness by increasing customer satisfaction, operational efficiency and market adaptability, translating into national economic gains. At firm level, superior quality enhances brand reputation and customer loyalty, allowing premium pricing and export opportunities, while innovation, whether in production processes, product features, or sustainability, reduces costs, boosts efficiency, and opens new markets that unlocks new revenue streams. Nationally, these improvements elevate export potential, attract Foreign Direct Investment (FDI), and foster sectoral linkages, which are critical for Zimbabwe to shift from raw agricultural exports to high-value processed goods, boosting forex earnings and employment.

Potential for Increased Foreign Investment

3.6 A more competitive environment created from the absence of price distortions caused by tariffs attracts foreign investors who are interested in leveraging reduced costs and improved infrastructure. Such investments could be those in mining and other investment activities where Zimbabwe competes with other countries as investment destinations in the region.

3.7 FDI enhances competitiveness by injecting capital, technology and expertise into domestic industries, fostering productivity and innovation. By establishing or expanding operations in a host country like Zimbabwe, multinational firms introduce advanced production techniques, managerial best practices and global quality standards that have a potential to advance efficiency of local supply chains. Furthermore, it stimulates competition, pushing domestic firms to improve their contributions, while creating jobs and skills development. At a macroeconomic level, sustained FDI inflows strengthen export capacity, reduce reliance on imports, and integrate the national economy into global value chains, ultimately boosting long-term growth and resilience.

Negative Impacts

Challenges for Local Industries

3.8 On the downside, removing tariffs has a potential to expose local manufacturers of import substitutes to increased competition from the US imports as they are not competitive enough. This leads to market share losses, potential layoffs, or even business closures. Additionally, this effectively destroys any chance of local industrialisation unless the country imports technological equipment to produce locally as opposed to importing finished products.

3.9 Furthermore, without protective tariffs, domestic manufacturers, particularly in agriculture, textiles, and processed foods, may struggle to compete with mass-produced, low-cost American imports, leading to reduced sales, profit margins, and potential business closures. This triggers job losses, stifle industrial growth, and increase reliance on foreign products, weakening Zimbabwe's economic sovereignty. Additionally, declining local production worsens the trade deficit and discourages future investment in domestic industries, perpetuating a cycle of dependency on imports and hindering long-term industrial development.

Economic stability and Dependency

3.10 The removal of tariff might worsen Zimbabwe`s unfavourable trade balance and erodes foreign currency reserves as imports will increase in the presence of discouraged exports. This could have longer term implications for economic stability and self-sufficiency. The overall effects will be inflationary as the ZiG exchange rate will devalue against the dollar as imports outshine exports.

Employment Effects

3.11 As businesses adjust to the new competitive landscape, there may be job creation in sectors that benefit from reduced costs. However, there is a huge potential for job losses, particularly in sectors that cannot compete with cheaper imports.

3.12 For instance, labour-intensive sectors such as sugar processing, clothing factories, and small-scale farming would be hit hardest, displacing thousands of formal and informal workers. This would not only deepen poverty but also reduce skills development and wage growth, as surviving businesses cut costs to compete. Over time, the erosion of local industries could shrink job creation opportunities, pushing more workers into informal survival economies and worsening Zimbabwe's already high unemployment rates.

4.0 Proposed Recommendations

4.1 Gradual Tariff Phase-Out

- Implement a phased approach to tariff removal for sensitive sectors. This allows local industries time to adapt to increased competition.
- Conduct regular impact assessments to decide on pacing and possible exceptions.

4.2 Strategic Support for Domestic Industries

- ***Subsidies and Incentives****:* Provide targeted subsidies or tax incentives for industries most vulnerable to foreign competition, especially SMEs and local manufacturers in labour-intensive sectors.
- ***Technology Transfer Programs****:* Facilitate partnerships between local firms and USA suppliers to allow technology transfer, enabling Zimbabwean firms to improve productivity and competitiveness.

4.3 Industrial Modernization and Capacity Building

- ***Infrastructure Investment****:* Invest in energy, transport, and digital infrastructure to lower production costs and increase competitiveness.
- ***Skills Development****:* Launch training and education programs aligned with sectors expected to grow through increased access to USA technology and machinery.

4.4 **Promote Value Addition**

- Instead of importing finished goods, promote the importation of raw materials and intermediate goods while encouraging local processing and manufacturing.
- Incentivize industries that add value to local agricultural and mineral resources before export.

4.5 **Trade Diversification and Export Promotion**

- Broaden export markets beyond the USA to reduce dependence and increase resilience.
- Support export-oriented industries through easier access to finance, marketing support, and logistics facilitation.

4.6 **Strengthening Regulatory Institutions**

- Ensure fair competition through robust regulatory frameworks that prevent dumping and protect emerging sectors.
- Enhance the capacity of agencies like ZIMRA and ZIMSTAT to monitor trade flows and respond to market dynamics effectively.

4.7 **Encourage Local Innovation and R&D**

- Provide grants or incentives for businesses investing in research and development, especially in agriculture, manufacturing, and ICT.
- Capacitate innovation hubs and incubators to support startups and tech-driven enterprises.

4.8 **Attract Responsible Foreign Direct Investment (FDI)**

- Design investment incentives targeting U.S. firms in high-tech, renewable energy, and manufacturing sectors that promote local employment and skills development.
- Ensure FDI complements rather than displaces domestic production.

4.9 Consider a regional approach (SADC, AU etc) to tariff reduction instead of unilateral.

5.0 Conclusion

5.1 Removing tariffs can provide numerous benefits by enhancing cost efficiency, product access, and overall competitiveness. However, there are potential negative impacts on local industries and the economy relating to trade imbalance, unfair competition, job losses and industry closures, among others.

5.2 Resultantly, it is therefore important for the country to balance these aspects to promote business competitiveness and economic growth towards an upper middle-income economy in line with Vision 2030. In addition, regional approach to the tariff issue provides an opportunity for Member States to negotiate favourable terms with the USA.