A CONCEPTUAL FRAMEWORK ON THE "BUY ZIMBABWEAN CAMPAIGN"

SUPPLEMENT 5 OF 5
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MONETARY POLICY REVIEW STATEMENT

DELIVERED BY THE GOVERNOR
OF THE RESERVE BANK OF ZIMBABWE,
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1. FORWARD BY THE GOVERNOR

1.1 This paper is the fifth out of five supplements accompanying the January–April 2005, Monetary Policy Review Statement. The other four address the following topics:

a) Drought Mitigation and Resuscitation Programs for the Agricultural sector in Zimbabwe.

b) Inflation Drivers in Zimbabwe.

c) Strategic Provincial Resource Allocation and Quick Turnaround Activities Based on the Concept of Comparative Advantage and

d) Perspectives on the Ills of Corruption.

1.2 The Conceptual framework for the Zimbabwean Miracle– Buy Zimbabwean Campaign outlined in this paper is envisaged to create a platform for economic turnaround based on the realignment of consumption patterns with the economy’s productive capacities.

1.3 The Concept is also expected to enhance meaningful contribution by the manufacturing sector to the ongoing economic turnaround crusade.

1.4 As Monetary Authorities we are fully cognisant of the weaknesses of the traditional import substitution strategy, which tends to create inefficiencies on the local production front.

1.5 However, contemporary evidence shows that no meaningful industrialisation strategy can occur without promoting local products.

1.6 The thrust of this initiative, is not to discourage international trade through restrictive barriers, but is aimed at instilling national pride and a sense of ownership that transforms consumer preferences in favour of their own brands.

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2. BACKGROUND

2.1. Over the last four years, the country has continued to experience foreign currency shortages. There has been a general supply/demand mismatch on our foreign exchange market which in one way or the other has presented constraints to full capacity utilisation.

2.2 It has, however been very saddening to note that some companies and individuals have insensitively continued to import non-essentials or finished products at the expense of the procurement of essential raw materials that can be used to increase capacity utilisation of the country's manufacturing sector.

2.2. Foreign currency shortages as well as unethical business practices have resulted in the re-emergence of parallel market trading activities. To this end, the foreign currency situation in Zimbabwe has been one of the major forces fuelling inflation which to date has now clearly emerged as the economy's worst enemy.

2.3. Against this background, it is important to note that the current market trends with regard to the consumption of importable commodities are not sustainable and not in tandem with the ongoing efforts to revive the economy.

2.4 In that regard, it is imperative that a mechanism be urgently crafted to realign the economy's consumption patterns with the country's balance of payments position so as to generate a sustainable consumption culture that allows the economy to sustain and continually reproduce.

2.5 **"The Zimbabwean Miracle-Truly Zimbabwean"** Campaign is therefore meant to allow market reclamation from imports by local brands in products and services.

2.6 In light of the above, what follows is a conceptual analysis to prove the rationale behind the "Zimbabwean Miracle-Truly Zimbabwean Initiative."

3. COST-BENEFIT ANALYSIS

3.1 Consumption of Imported Goods (Costs)

- Creates a non-cyclical economy characterised by supply demand mismatch

- Low capacity utilisation

- High unemployment levels

- High activity on the parallel market leading to the general abuse of foreign currency.

- Poor performance of local currency against the rest of the world.

- High per unit production costs for local industries

- Low economic growth prospects.

- Lower levels of welfare due to quality assurance loopholes

- Inflation and Price instability due to parallel market based pricing models.

3.2. CONSUMPTION OF LOCAL PRODUCTS (BENEFITS)

3.2.1. CREATION OF CYCLICAL SUSTAINABLE ECONOMY

3.2.1.1. All economic entities have forward economic linkages with the economic agents demanding their produce, as well as, backward economic linkages with the providers of their inputs, including labour.

3.2.1.2 These backward and forward economic linkages create an economic web of interdependence between the various entities within the economy, thereby allowing the economy to continually sustain and reproduce itself.

3.2.1.3. Consumption of locally produced goods therefore, has the immediate impact of providing forward economic linkages to the productive sector, which through the backward linkages it has with other downstream industries, **transmits the multiplier effect to benefit**

the whole economy through increased aggregate economic activity.

3.2.2. INCREASED CAPACITY UTILISATION

3.2.2.1. The current levels of capacity utilisation range between 60 -70 %. It is worth noting that, this is against the background of a variety of imported commodities out-performing local products thereby subjecting local companies to a demand based disincentive to produce .

3.2.2.2. **In that regard, it cannot be overemphasized that any policy that encourages consumption of locally produced commodities will increase industrial capacity utilisation significantly towards the targeted 100% mark.**

3.2.3. HIGH EMPLOYMENT LEVELS

3.2.3.1. As has been noted above, consumption of locally produced goods establishes locally benefiting backward economic linkages to providers of downstream local services, notably labour.

3.2.3.2. This in simple terms means that consumption of locally produced commodities creates demand for local labour resources and hence contributes significantly to the noble fight against unemployment.

3.2.4. REDUCED PARALLEL MARKET ACTIVITIES

3.2.4.1. Based on Exchange Control approvals, evidence on the ground reflect a lethargic mismatch between imported consumer goods entering the country with the volume of Exchange Control approved transactions.

3.2.4.2. This clearly shows that the bulk of the imported consumer goods, vehicles and even some raw materials are being financed through the illegal parallel market for foreign exchange, thereby negating the efforts by the Monetary Authorities to tame the destructive parallel market.

3.2.4.3. This, in effect, suggests that consumption of locally produced goods in preference to imported items would have the impact of curtailing parallel market activities.

3.2.5. STABLE CURRENCY

3.2.5.1 It is common economic knowledge that the strength of any currency against the world currencies is principally a function of its balance of payments position.

3.2.5.2. It is, therefore, worth noting that when it comes to currency stabilisation, export performance assumes equal importance with the management of import demand.

3.2.5.3. Consumption of locally produced goods would therefore help stabilise the value of the local currency. This facilitates the building up of foreign currency reserves to support the country's balance of payments position.

3.2.6. LOWER PRODUCTION COSTS (ECONOMIES OF SCALE)

3.2.6.1 In any production system, the per unit production costs are a function of the ratio between the industry's fixed costs and the relevant variable costs that can be assigned to each specific unit of production.

3.2.6.2. This in effect, means that where the scale of production is significantly large, the cost of each unit produced is expected to be lower since economies of scale provides the producer with a greater base on which to spread the unavoidable fixed costs of production creating productive efficiency and product price stability.

3.2.6.3. **It is, therefore, justifiable that any policy direction geared towards increased consumption of locally produced goods will, apart from increasing capacity utilisation; reduce the average production costs for local industries through providing them with an opportunity to exploit the efficiency gains arising from the resultant economies of scale.**

3.2.7. HIGH ECONOMIC GROWTH PROSPECTS

3.2.7.1. Consumption of locally produced goods impacts positively on capacity utilisation and hence aggregate economic performance thereby allowing for economic growth and national development.

3.2.7.2. Furthermore, the internalisation of demand and the transmission of the resultant demand multiplier effects into the economy present a significant engine for sustained economic growth prospects.

3.2.8 QUALITY ASSURANCE

3.2.8.1 Of late, it has been noted with grave concern that the recent influx of mainly clothes and other consumer goods into Zimbabwe have brought with it a variety of substandard goods thereby short-changing the unsuspecting local consumers who rushed for such products.

3.2.8.2 Consumption of locally produced goods would help to create and monitor quality assurance standards to the benefit of the local consumer's welfare.

3.2.9. Price Stability

3.2.9.1. A significant volume of imported consumables, vehicles and raw materials are being financed from the parallel market.

3.2.9.2. It has also been noted that the sellers of such commodities are using **parallel market based pricing models** to set prices for the goods on the local markets, thereby setting the tone for exaggerated price levels - the parallel market rate is exaggerated, being beyond basic economic fundamentals.

3.2.9.3. In addition, local producers also align their price levels to the parallel market so as to avoid negative consumer perception on their products.

3.2.9.4 **This, therefore, adds to exacerbate the extent of the economy's declared number one enemy, inflation.**

4. IMPORT SUBSTITUTION AND LOCAL BRANDS PROMOTION

4.1. Theoretical Rationale behind Import Substitution

4.1.1. **Import substitution** is the replacement of goods and services purchased outside the country with goods and services produced within the economy.

4.1.2. In this sense, import substitution creates **"growth from within"** as local businesses receive supply contracts and local residents earn wages and income.

4.1.3. **In light of the above, an aggressive import substituting drive, spearheaded through aggressive marketing and promotion of local brands with significant local content in terms of manufacturing and packaging effort, would go a long way in positively restructuring the economy's consumption patterns .**

4.1.4. The aim would be to build preference and shape aggregate consumption patterns in support of the country's balance of payments position.

4.1.5. In a hypothetical export-oriented economy, where local industries purchase inputs, including labour from local suppliers and locals consume mainly local products, the effect of foreign expenditure on the country's exports is **multiplied** by these additional rounds of local income and spending.

4.1.6. This in effect generates a **multiplier effect** of aggregate demand which is then transmitted to various downstream economic agents.

4.1.7. This means that, any dollar realised from an export is an injection of demand and capacity utilisation to the exporting economy and at the same time a leakage of the same from the importing country.

4.1.8. Imports therefore represent a *leakage* from the importing economy. Imports leak rounds of demand outside the economy so that they are not available to contribute further to the earnings, production and hence aggregate performance of the economy. These further rounds of income and spending are transmitted into the economies that produce the imported goods or services.

4.1.9. **Import substitution acts to prevent this leakage**, essentially plugging up the system so that all the multiplier effects are contained within the economy.

4.1.10. **By this theory, the replacement of one dollar's worth of imports with local products is as effective in generating national economic growth and expansion as the creation of one dollar's worth of exports from the economy.**

4.2. EVIDENCE OF IMPORT SUBSTITUTION IN THE CONTEMPORARY GLOBAL ECONOMIC ARENA.

4.2.1. While the Monetary Authorities acknowledge the intricate inefficiencies embodied in traditional import substitution strategies based on wholesale non tariff barriers such as import restrictions, it can not go without mention that the contemporary form of import substitution has grown into an indispensable and internationally shared method of achieving economic sustainability and continuity.

4.2.2 Almost all countries maintain a form of **"buy national"** regulations and/or laws that require a certain percentage of equipment sold in the country, typically to government entities, to be made in the country, or, have value-added to the product in that country (including labour used to enhance, package, or transport a product, or anything else that contributes to bringing a product to the market).

4.2.3. The "buy national" restrictions of some countries are more onerous than others.

4.2.3 **It is worth noting that in the contemporary global economic arena, import substitution and export orientation are not mutually exclusive but rather complimentary strategies in achieving growth and economic stability.**

4.2.4 **It would therefore be naive take an uninformed judgmental approach on any attempt by an economy to systematically substitute specific imports with locally produced goods of comparable quality in an endeavour to realign consumption patterns with balance of payment position.**

4.2.5 Instead, as already alluded to; such a move would create a more efficient and stable economic machinery with substantial capacity for growth.

4.2.6 The following are some of the buy national initiatives that have been successfully undertaken in world economies:

4.2.5.1. MALAYSIA

- In Malaysia, transformation of the industrial base was driven, first, by a period of import-substitution, during which imports of consumer goods were reduced and natural-resource processing was increased.

- Subsequently, in the early 1970s, policy shifted to a growth-with-equity export orientation, which was unique to Malaysia’s own socioeconomic and political circumstances.

- Trade policies were promoted with fiscal incentives; export-processing and free-trade zones were created to attract foreign investment in particular.

4.2.5.2. UNITED STATES OF AMERICA (USA)

- In the United States, **the Buy American Act** stipulates that certain federal, state and local government entities procure only domestically-manufactured equipment.

- An item is deemed **"domestically manufactured"** if 50 percent is mined, manufactured or produced domestically. Additionally, procurement can be barred from countries that do not provide access to U.S. equipment and services.

- Furthermore, the subsidies availed to US agriculture when viewed in the context of the prohibitive market entry barriers characterising the US agricultural markets, can be viewed as a good example of a protectionist import substituting initiative.

4.2.5.3. BRAZIL

- Traditionally, the Brazilian government has maintained various programs of incentives to promote local manufacturing and disincentives to importing, in particular with respect to purchases by Telebras, the dominant telephone company in Brazil.

4.2.5.4. CHINA

- Currently, China has issued directives mandating that all GSM (global system for mobile communications) equipment purchased in China be produced domestically.

4.2.5.5. SOUTH AFRICA

- South Africa has come up with the **“Proudly South African”** Brand as a means to market and promote local products and services with a view to internalise the multiplier impact of local consumer demand within the framework of the South African economy.

- **“Proudly South African”** is an exciting campaign to promote South African companies, products and services which are helping to create jobs and economic growth in South Africa.

- The **“Proudly South African”** initiative is strongly supported by government, labour, business and community organisations.

- The Proudly South African initiative has generally been considered as the way for every South African to do something concrete to support job creation, and help build the nation.

- At the heart of the campaign is the Proudly South African logo. Companies who meet the standards set by Proudly South African can use the logo to identify themselves, their products and services.

4.2.5.6 **ZAMBIA**

- In Africa, Zambia is the second largest trading partner for Zimbabwe after South Africa.

- During the course of 2002, Zambia imposed a one-year ban on certain imports from Zimbabwe. These imports were wheat, wheat flour, soy beans, soy cake, Ultra Heat Treated (UHT) milk, cement, soaps, asbestos roofing sheets, blankets, ripe bananas, wood and timber products, eggs, cigarettes, cooking oil and paint.

- The banned products were essentially agricultural products and construction materials. A month later, Zambia considered extending the ban to 3 years and also imposing restrictions on certain South African products such as flour.

- Zambian authorities argued that the ban on the Zimbabwean imports was as a result of complaints by Zambian manufacturers to their government that cheap imports from members of the Comesa Free Trade Area, as well as South Africa which is not a member, had plagued the country since 2000.

4.2.5.7 MALAWI AND MOZAMBIQUE

- Malawi and Mozambique have also, at some stage, imposed barriers on Zimbabwean products, as well as those from other countries, in a bid to protect their own industries.

- This in effect bears testimony to the international status of the constant need to ensure consumption of local produce among our neighbours.

4.2.5.8 HISTORICAL PERSPECTIVE, RHODESIA UNDER UDI

- The break-up of the Federation of Rhodesia and Nyasaland in 1963 was followed in 1965 by the Unilateral Declaration of Independence (UDI) by the minority government in Southern Rhodesia.

- This declaration was considered by the international community as illegal and hence led to the imposition of Sanctions on the country.

- Trade sanctions led to a new era of **inward-looking import-substituting industrialization.** In 1965 manufacturing accounted for just 17 per cent of GDP. By the end of this period, in 1980 this figure had risen to 24 per cent and the range of products produced had risen dramatically.

- The government introduced an extensive set of controls to ration foreign exchange.

- Price controls were also established.

- These were intended to protect both producers purchasing capital and intermediate goods from the manufacturing sector, and final consumers, especially regarding foodstuffs.

- With the industrialists and the government of the day sharing a mutual determination to overcome the impact of international sanctions, the system of controls was crafted to operate effectively resulting in the highly protected system avoiding the gross inefficiencies which has given character to some other import substitution regimes.

- The shared need to adapt and innovate led to the development of a wide range of technical skills.

5. CURRENT SCENARIO ANALYSIS

5.1. The overwhelmingly positive impact of consuming local products, as clearly supported by both theory and contemporary circumstances makes it imperative that the Monetary Authorities rise to promote local products and avail them a platform to reclaim their market share from the imports, some of which have since proved to be of seriously questionable quality.

5.2. This is particularly so, when viewed in the context of the unsustainable economic haemorrhaging effect of the continued consumption of imported consumables in the face of local substitutes.

5.3. It is, however, crucial to note that any policy that is adopted should maintain consistency with national industrial policy, as well as the international trade protocols, of which Zimbabwe is a signatory.

5.4. In that regard, the following analysis seeks to open up the current state of affairs.

5.4.1. NATIONAL INDUSTRIAL DEVELOPMENT POLICY 2004- 2010

5.4.4.1 The country has adopted a generally export led industrial development policy to guide industrialisation initiatives between 2004 and 2010.

5.4.4.2 The policy document is framed on the economy's resolve to transform Zimbabwe from a producer of primary goods into a producer of processed value-added goods for both the domestic and export markets

5.4.4.3 Notwithstanding Section 12.3 of the Industrial Development Policy document which states that Government would provide incentives to companies producing for the domestic market to aid industrialisation, **the current industrial development policy does not recognize the inalienable complementarities that exist between import substitution and export led industrialisation.**

5.4.4.4 The policy rightly emphasizes on export performance as the engine for growth but fails to recognise that export competitiveness, the world over, is a function of productive efficiency, which especially for small economies like Zimbabwe, is affected by the scales of production and levels of capital investment.

5.4.4.5. This takes us back to the contemporary import substituting agenda through which **promotion of local products facilitates growth and development of local industries enabling them to produce efficiently, thereby, better equipping them to penetrate global**

markets with cheaper products of comparable quality.

5.4.2. TARIFF REGIME

5.4.2.1. Currently, import tariff levels in Zimbabwe are considered to be on the high side by the World Trade Organisation, of which Zimbabwe is a member.

5.4.2.2. Furthermore, the long term national aim of the current tariff policy is to progressively reduce the overall levels to narrow the spreads in line with SADC, COMESA and WTO.

5.4.3. SADC TRADE PROTOCOL

5.4.3.1. Zimbabwe is a signatory to the SADC protocol on trade. The SADC Protocol on Trade envisages the creation of a Free Trade Area within the SADC Region by 2008 when over 85% of the goods sold within the region are expected to be at Zero Tariff.

5.4.3.2. The major objective of the trade protocol is to liberalise intra-regional trade through the following strategies:

- The gradual elimination of tariffs;
- Adoption of common rules of origin;
- Harmonisation of customs rules and procedures;
- Attainment of internationally acceptable standards, quality, and accreditation.
- Harmonisation of sanitary and phyto-sanitary measures;
- Elimination of non-tariff barriers; and
- Liberalisation of trade in services.

5.4.4. COMESA TRADE PROTOCOL

5.4.4.1. Zimbabwe is also a signatory to the COMESA Trade Protocol

5.4.4.2 Like in the case of SADC, COMESA also seeks to create a free trade area through gradual tariff reduction and eventual elimination of the same.

5.4.4.3. Also the protocol is based on the **rules of origin** as the determining factor for free entry of goods into markets across boarders.

5.4.4.4. For COMESA purposes goods are considered as originating from a country, if at least 35% of the inputs are sourced from that country.

5.4.4.5 The COMESA free trade Area was launched in the year 2000.

5.4.5. CURRENT CONSUMPTION OBSERVATIONS

5.4.5.1. The major contributors to import consumption are as follows:

- **Consumer Goods** notably bath soaps; tooth pastes, biscuits, cooking, pots, rice, baby, care products, soft drinks wines and many more.
- Luxury Motor vehicles

- Foreign Education Services
- Foreign Holiday Services.
- Foreign construction materials.

6. "BUY ZIMBABWEAN PRODUCTS" CAMPAIGN

6.1 In an effort to realign the economy's consumption patterns with its production base while at the same time sticking to our international and moral obligation to responsibly abide by the dictates of the international trade protocols we are voluntarily part to, The Monetary Authorities are set to launch The Zimbabwean Miracle Campaign.

6.2 This in essence would involve the launching of an aggressive "Buy Zimbabwean" marketing drive to promote and encourage the consumption of locally produced goods.

6.3 Selected products will qualify for marketing and support under a **“Truly Zimbabwean”** brand based on the following:

- Fulfilling set standards of product quality and price competitiveness.
- Having a local input content certified by the Reserve Bank or appointed body.

6.4 Apart from marketing and promotion, the Reserve Bank would also provide concessionary finance specifically for increasing capacity for industries producing the selected products.

6.2.4. ADVANTAGES

- Local Brand Promotion is not in conflict with SADC, COMESA and WTO protocols.

- Promotion of local products without erecting barriers will avoid the possibility of retaliatory action of fellow trading partners that might affect the country's export markets.

- Aggressive marketing of local products would also create a sense of patriotism, nationhood and belonging among locals thereby creating confidence of the locals in their own economy.

- Methodology ensures the preservation of productive efficiency since only products of acceptable quality would qualify for the promotions.

- The promotion of such products can easily be extended outside our boarders and becomes solid export promotion.
- There would be an improvement in the economy's BOP standpoint through efficient import substitution.

7. CONCLUSION

7.1. Reserve Bank takes special cognizance of the negative impact of the continued consumption of imports in place of locally produced goods, as well as, the massive amounts of foreign currency that may potentially be saved as a result of consumption of local commodities.

7.2. In that regard, the Central Bank, will initiate a massive and aggressive campaign to market and promote consumption of locally produced commodities as well as the necessary support measures to create a stable and reproducing Zimbabwean economy.

7.3 Detailed implementation Modalities on the Zimbabwean Miracle "Truly Zimbabwean" will be released in due course.

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