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The Level and Variation of Tariff Rates: A Comparative Analysis of Zimbabwe and South Africa Tariff Regimes

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TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

ABSTRACT

Globalisation and regional integration have brought to the fore the need to benchmark economic policies of nations as a way of identifying and evaluating reasons as to why some countries are more competitive than others. The present paper therefore attempts to compare and contrast the levels and variations between Zimbabwe and South Africa tariff regimes. Zimbabwe is South Africa's major trading partner in the SADC region and besides their membership to SADC, Zimbabwe and South Africa have entered into COMESA and South Africa – EU trade agreements respectively. A comparison of the two countries' tariff schedule with respect to MFN, SADC, COMESA, EU demonstrates that Zimbabwe has higher nominal tariffs.

The comparison of the levels of tariffs of the two nations shows that South Africa has liberalised faster than Zimbabwe under SADC, and that the collection efficiency rate for the former is lower than for the latter. It is fundamental to note that the analysis is restricted to ad valorem duty rates only.

EXECUTIVE SUMMARY

Tariff regimes remain the main pillars of Zimbabwe and South Africa trade policy. However the levels of tariffs relating to merchandise originating from different sources have been greatly influenced by the two countries' membership to either SADC, COMESA and SA- EU trade agreements.

Zimbabwe's tariff schedule relates to MFN, SADC and COMESA whereas South Africa's schedules is a function of MFN, SADC and SA-EU trade agreements. The MFN and SADC rates appear in both countries' tariff schedules because both countries' are members of WTO and SADC, hence the comparative analysis of the two nations' regimes is centred on MFN and SADC rates.

Zimbabwe's tariff regime has 5998 rated commodity lines composed of 28 different types of ad valorem, specific and mixed tariffs whereas the South African regime has 7831 lines that are made up of 211 tariff lines consisting of ad valorem, specific, mixed and compound tariff, reflecting that it is relatively complex than Zimbabwean one.

A comparison of the two nations MFN rates shows that Zimbabwe has a relatively more protective tariff regime in nominal terms. For example Zimbabwe and South Africa tariff schedules have 42.75% and 11.62% of their MFN rates greater or equal to 20% respectively. The remaining proportion for both countries attracts duty rates in the range of 0% to 15%.

South Africa has liberalised faster than Zimbabwe under SADC. For example the former has 64.2% lines attracting 0% whereas for the latter, only 37% attracts the same level of duty. Zimbabwe has liberalised its entire tariff regime to 0% with respect to COMESA, whereas South Africa will only eliminate duty on 86% of tariffs on imports from EU over 12 years.

In terms of imports attributed to a given tariff band, close to 65% of imports into South Africa attract a duty rate of 0%, whereas for Zimbabwe the 5% -10% band has the highest import contribution of 27.2%.

It was observed that there was a wedge between potential and actual revenue collected by both countries that may be attributed to merchandise imported on preferential or rebate. Analysis of Zimbabwe and South Africa data showed collection efficiency rates of 84.1% and 29.4% respectively. Further more it was established that there tends to be an inverse relationship between the levels of duty and revenue collection rates.

Zimbabwe has operated a fixed exchange rate system since late 2001 and that has impacted negatively on the effectiveness of her tariff schedule as a deterrent to imports and as a revenue generation tool.

The comparative analysis suggests that there is a need for both countries to streamline their rebate systems in order to raise efficiency in revenue collection. South Africa should institute studies to evaluate revenue losses, which could be attributed to Free Trade Areas and Zimbabwe should also carry out a thorough analysis of the benefits and costs of the fixed exchange rate policy.

1. INTRODUCTION

Zimbabwe and South Africa are key trading partners in the SADC region, whose trade is mainly governed by the 1964 bilateral trade agreement and the SADC protocol. The trading balance is in favour of South Africa, for example in 1998 it stood at US$697 million and the gap has been reported to be widening over the years. This phenomenon could be explained by economic fundamentals, which are more favourable for South Africa than Zimbabwe. In 1997 Zimbabwe and South Africa 's GDP were US$8.6 billion and US$130.2 billion respectively. As a consequence of history, most companies in Zimbabwe are subsidiaries of South African companies. These subsidiaries were established to service the Zimbabwean market and markets to the north of Zimbabwe on behalf of their principles, and not to export to South Africa. In most cases these arrangements are reduced into market segmentation agreement, which makes it difficult for Zimbabwean firms to export into South Africa.

However the motivation of the present paper is not to dwell on the factors which have been highlighted in the preceding paragraph, but to make a comparative analysis of the two economies' tariff regime. We feel this paper will go a long way in assisting stakeholders in respective economies to appreciate the similarities and differences between the tariff structures of the two nations.

We will start by comparing the two countries' most favoured nation (MFN) tariff schedules, their SADC, COMESA AND SA-EU tariff schedules, revenue collection efficiency and we will also attempt to analyse the impact of Zimbabwe's exchange rate policy on the usefulness of her tariff schedule.

2. COMPARISON OF TARIFF SCHEDULES AS AT MARCH 2001

Zimbabwe's tariff regime has 5999 commodity lines composed of 28 different types of ad valorem, specific and mixed tariffs. Whereas South Africa (Van Seventer, 2001)) identifies 7831, which is made up of 211 tariff lines consisting of ad valorem, specific, mixed and compound tariffs. This difference illustrates that the Zimbabwean regime is relatively simpler than the South African schedule. It also highlights the point that the Zimbabwean book has fewer national splits hence more aligned with Harmonised System than the South African.

We are going to restrict our analysis to ad valorem duties. The Zimbabwean schedule displays the following attributes. The highest tariff of 100% appears eighteen times, whilst the frequency of the lowest tariff of 0% is 333 times. Five percent has the highest frequency appearing 1705 times, which constitute 28% of the commodity lines identified. Other frequent ad valorem tariffs are 40% (867 lines), 25% (801), 15% (681 lines) and 10% (646 lines). The tariff range of 0% to 30% takes about 4618 commodity lines, which translates to 77% of the entire tariff schedule. Whereas South Africa has the maximum tariff of 55%, which appears once, and their mode tariff is 0%, which appears 3500 times, hence consuming about 45 % of her HS8 commodity lines. Other tariffs with significant shares are 10% (513 lines), 15% (522 lines) and 25% (116 lines). For a detailed comparison see Table 1.

Table 1: Detailed comparison of Zimbabwe and South Africa Tariff schedules (March 2001)

Row	Ad valorem (%)	# Lines Zimbabwe[1]	% of lines	# Lines S. Africa[2]	% of lines
1	Tariff > 80	56	0.9	0	0
2	50≤ tariff < 80	397	6.6	2	0.02
3	40≤ tariff < 50	867	14.4	61	0.8
4	30≤tariff < 40	63	1.05	168	2.1
5	20≤tariff < 30	1190	19.8	681	8.7
6	15≤tariff < 20	681	11.4	576	7.4
7	10≤tariff < 15	646	10.8	539	6.9
8	5≤ tariff < 10	1705	28.4	366	4.7
9	0< tariff < 5			5	0.06
10	0	333	5.6	3485	44.5
11	Other	60	1.0	1941	24.8
12	Total	5998	100	7824	100

Source: 1. Calculations derived from Zimbabwe Revenue Authority and own calculations
2. van Seventer (2001)

From Table 1 it is clear that South Africa's tariffs are lower than those of Zimbabwe, for example 7.9% of commodity lines in the Zimbabwe tariff schedule attract duty rates of above 50% yet for South Africa it's only 1%. Notwithstanding the preferential arrangement which Zimbabwe firms enjoys when entering the South African market it is clear that South Africa's tariff regime is more favourable than that of Zimbabwe. 34% of Zimbabwe's tariff schedule is made up of duty rates in the range of 0% to 10%, whereas for South Africa this range takes about 56.16%. Zimbabwe's nominal average was 19.9%, whereas that of South Africa was estimated to be 6.5%. (Note this average relates only to ad valorem duties of both countries). Tsikata (1999) notes that whilst South Africa has low simple mean tariffs, her large number of different tariff rates, and several national splits renders the system non-transparent.

Both countries have reformed their tariff schedules over the years, for example the number of commodity lines have declined significantly when the situation as at March 2001 is compared with 1996. In 1996 Zimbabwe had 7266 commodity lines, compared to 5998 as at March 2001, showing a decline of 17%, this is an outcome of an exercise which was carried-out by the Tariff Commission to realign the Zimbabwe schedule to Harmonised system six digit, by deleting redundant national splits. Whereas for South Africa, the number of commodity lines declined from 8943 to 7831, showing a contraction of 12%.

3. TARIFFS ON FREE TRADE ARRANGEMENTS

Both countries belong to a number of regional and bilateral preferential arrangements and it is therefore imperative that we analyse how the tariff schedules meant for the trade agreements depart from the MFN rates which caters for trade with the rest of the world. We should note from the onset that both countries belong to SADC, however Zimbabwe is also part to COMESA, whilst South Africa has a FTA arrangement with the European Union (EU).

Table 2 shows a summary of Zimbabwe's tariff schedules with the rest of the world, COMESA and SADC. The COMESA tariff schedule is dramatically different from her schedule with the rest of the world in that all commodity tariff lines attract a duty rate of zero percent.

Comparing Zimbabwe's schedule to the rest of the world schedule against the SADC schedule shows that the number of zero-rate commodity lines have increased significantly from 5.6% to 37%. However the 5% rates' contribution has shrunk from 28.4% in the rest of the world schedule to 13.9% in the SADC schedule. This could be explained by the increases in 0% duty rates. This is so because Zimbabwe made a commitment to zero rate all the products, which attract a duty rate of 5% in the rest of the world schedule. Another marked difference between the two schedules relates to an increase in the commodity lines, which attract duty rates in the range 30 to 40%. For example whilst the given tariff band contributes 1% to the rest of the world schedule, it contributes 8.9% in the SADCC schedule. Given that South Africa is the main source of Zimbabwe's imports, this could act as incentive to South African business people to increase their exports to Zimbabwe on condition that their goods meet the agreed rules of origin.

Table 2: Zimbabwe; Comparison of commodity HS schedules for imports from COMESA, SADC and the rest of the world (RoW) (March 2001)

Row	Tariff Schedules	# of HS8 lines Row	% of # of lines Row	% imports	# of HS8 lines COMESA	% of # of lines COMESA	# of HS8 lines SADC	% of # of lines SADC
1	Tariff > 80	56	0.9	0.89	0	0	17	0.28
2	50≤tariff < 80	397	6.6	3.3	0	0	122	2.03
3	40≤tariff < 50	867	14.4	11.8	0	0	653	10.88
4	30≤ tariff < 40	63	1.05	0.5	0	0	537	8.9
5	20≤tariff < 30	1190	19.8	24.7	0	0	481	8.0
6	15≤ tariff < 20	681	11.4	8.0	0	0	514	8.6
7	10≤tariff < 15	646	10.8	13.1	0	0	305	5.1
8	5≤tariff < 10	1705	28.4	27.2	0	0	837	13.9
9	0< tariff < 5			0.0	0	0		0
10	0	333	5.6	7.2	5998	100	2275	37
11	Other	60	1.0	3.2	0	0	257	4.2
12	Total	5998	100	100	5998	100	5998	100

Source: Calculations derived from Zimbabwe Revenue Authority and own calculations
Note: Analysis only applies to ad valorem tariffs

For South Africa the main tariff schedules relate to MFN, SADC and the EU Free Trade Agreement. The significant difference between the SADC schedule and the MFN schedule relates to duty rates of 0% and those in the category 15% to 20%, for the former the contribution has went up from 44.6% to 64.2% and from 7.4% to 19.7% for the latter. This should come as good news to Zimbabwean firms who export goods to South Africa, while meeting the requisite rules of origin.

With reference to the EU schedule, the significant change occurred in the 15% to 20% band, were the number of commodity lines which attract the duty rate in the given

category contributed 7.4% and 19.7% in the rest of the world schedule and the EU schedule respectively.

Table 3: South Africa; Comparison of commodity HS schedules for imports from EU, SADC and the rest of the world (RoW), (March 2001)

| Row	Tariff Schedules	# of HS8 lines Row	% of # of lines Row	% Imports	# of HS8 lines EU	% of # of lines EU	# of HS8 lines SADC	% of # of lines SADC
1	Tariff > 80	0	0	-	0	0	0	0
2	50≤tariff < 80	2	0.02	-	0	0	0	0
3	40≤tariff < 50	61	0.8	3.3	296	3.8	11	0.1
4	30≤ tariff < 40	168	2.1	9.3	195	2.5	310	4.0
5	20≤tariff < 30	681	8.7	5.3	1943	24.8	202	2.6
6	15≤tariff < 20	576	7.4	3.2	664	8.5	1546	19.7
7	10≤tariff < 15	539	6.9	3.6	528	6.7	659	8.4
8	5≤tariff < 10	366	4.7	5.2	277	3.5	23	0.3
9	0tariff < 5	5	0.06	0.0	53	0.7	0	0
10	0	3485	44.5	65.9	3631	46.4	5027	64.2
11	Other	1941	24.8	4.1	244	3.1	53	0.7
12	**Total**	**7824**	**100**	**100**	**7831**	**100**	**7831**	**100**

Source: van Seventer (2001)
Note : Analysis only applies to ad valorem tariffs

A comparison of the two nations' SADC schedule reflects that South Africa has liberalised faster than Zimbabwe. For example the SADC schedule for the former has 64% zero rates, whereas the latter has 37%. This scenario hinges on the fact that SADC tariff phasedown programme is asymmetric in that South Africa is expected to open its market for imports from the rest of SADC states faster than they should for imports from South Africa.

For Zimbabwe column 5 of Table 2 shows that tariff band 5 ≤ tariff <10 has the highest import contribution of 27.2%, followed by 20 ≤ tariff <30 band which has an import ratio of 24.7%. This development could be attributed to the fact that the former and the latter bands are mainly for critical raw materials and consumables, which are mostly imported. Whereas for S. Africa 0% tariff rate takes 65.9% of imports, followed by tariff band 30≤tariff<40, which attracts 9.35 of total imports. Comparison of Zimbabwe and S. Africa with reference to percentage import contribution distribution across the given tariff bands is show in Figure 1.

Figure 1: Comparison of percentage import contribution to tariff bands between Zimbabwe and South Africa
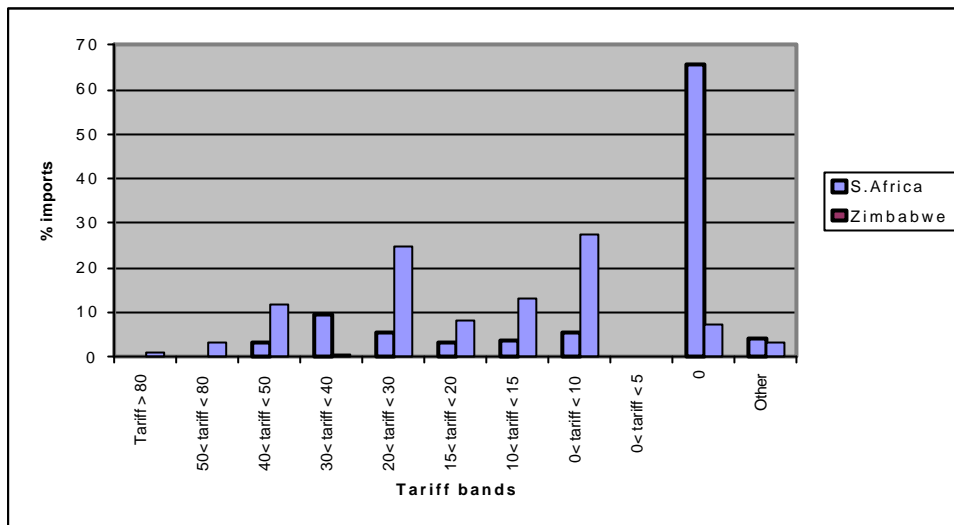
Source: Tables 2 and 3 Note: each broad tariff band includes the lower boundary, i.e., the > sign should read ≥.

For the other two trade pacts namely SA-EU and Zimbabwe-COMESA, it is difficult to make comparisons as per the relations of the two nations to the given FTAs. However we should point out that COMESA is an old arrangement and that Zimbabwe has completely liberalised all its sectors, whereas the SA-EU FTA is a new agreement which came into being in 2000, and South Africa is expected to phasedown its tariffs over a period of 12 years.

The other significant difference between COMESA and SA-EU FTA, is that the former is a reciprocal agreement, whereas the latter is not. Under COMESA all member states were expected to liberalise their trade regimes at the same pace, although other states requested for a derogation to delay implementation. As for the SA- EU FTA, the European Union is expected to liberalise completely on 95% of its imports from South Africa, between 2000 and 2003. On the other hand South Africa should eliminate duty on 86% of tariffs on imports from the EU but spread over 12 years.

4. EFFICIENCY IN REVENUE COLLECTION

Analysis of revenue collection of customs duties in South Africa and Zimbabwe has shown that there is a wedge between potential (expected) revenue and actual revenue collected. Put differently it has been observed that actual duty collected, as a proportion of imports, may be less than the MFN rates shown in the tariff schedules. Collection ratios, which are obtained by expressing actual duty collected as a percentage of CIF value of imports are mostly used as indicators of efficiency of tariff collection, however this statistic can be misleading. Therefore calculating collection efficiency ratio, which is defined as the implicit tariff collection ratio expressed as a percentage of the statutory rate, can augment this indicator. Tsikata (1999) estimated

the collection efficiency ratio of South Africa and Zimbabwe as 65.2% and 53.4% respectively. This wedge has been attributed to the following reasons:

- There may be rebates that apply to certain shipments and not to others. For example in Zimbabwe there is conditional entry for Assemblers of Motor vehicles and rebates for the electrical sector and tyre manufacturers.

- Exemption of duty or merchandise imported by government, diplomatic missions, NGOs, and returning residents;

- Goods may be imported from a Free trade Area such as COMESA, SADC or EU. Furthermore there may be other bilateral arrangements that apply to certain countries.

The scenario relating to the difference between potential revenue and actual revenue are shown in Tables 4 and 5 for South Africa and Zimbabwe respectively.

Table 4: Zimbabwe's consolidated tariff analysis based on July 2000 tariff schedule and 2000 imports on revenue collection ratios

Row	Band	# of HS8 lines	% of # of lines	% of imports	Actual duties collection rate	Potential duty collection rate	Collection efficiency rate
1	Tariff > 40%	343	7.3	4.8	40.0	60.6	66.6
2	30≤tariff < 40	732	15.7	12.8	34.3	37.5	91.5
3	20≤ tariff < 30	1004	21.5	26.6	20.6	23.4	88.0
4	15≤ tariff < 20	498	10.5	8.2	12.9	14.6	87.8
5	10≤ tariff < 15	508	10.9	10.8	6.6	9.8	67.0
6	5≤ tariff < 10	1304	28.7	28.7	4.0	4.9	80.9
7	0≤ tariff < 5	0	0	0	0	0	0
8	0		5.1	7.8	0	0	0
9		**4663**	**100**	**100**	**14.9**	**17.7**	**84.1**

Source: Calculations derived from Zimbabwe Revenue Authority and own calculations
Note : Analysis only applies to ad valorem tariffs

Zimbabwe and South Africa had revenue collection efficiency of 84.1% and 29.2% in 2001 respectively. This reflects a marked improvement for Zimbabwe, from 53.4% as shown in Tsikata (1999), however for S. Africa there is a different story, the ratio has deteriorated from 65.2% to 29.4%. This could be explained by reduction in duty collection due to the implementation of the SADC and EU trade agreement (this is an area, which requires a serious inquiry in order to explain this drop).

Table 5: South Africa consolidated tariff analysis based on July 2000 tariff schedule and 2000 imports on revenue collection ratios

Row	Band	# of HS8 lines	% of # of lines	% of imports	Actual duties collection rate	Potential duty collection rate	Collection efficiency rate
1	Tariff > 40%	63	0.8	3.5	5.2	46.7	11.0
2	30≤ tariff < 40	168	2.1	9.7	3.0	34.4	8.7
3	20≤tariff < 30	681	8.7	5.5	14.1	20.6	68.2
4	15≤ tariff < 20	576	7.4	3.3	10.9	15.1	72.3
5	10≤ tariff < 15	539	6.9	3.7	7.2	10.3	69.9
6	5≤tariff < 10	366	4.7	5.4	4.8	5.6	84.5
7	0≤ tariff < 5	5	0.1	0.0	3.7	3.8	99.4
8	0	3485	59.2	68.7	0.0	0.0	Na
9		**5883**		**100**	**2.1**	**7.3**	**29.4**

Source: van Seventer (2001)

Note: Analysis only applies to ad valorem tariffs

The tariff band with duty rates above 40 %, for Zimbabwe has the lowest collection efficiency ratio of 66.6%, whereas for South Africa, the tariff band ranging from 30% to 40%, has the least efficiency rate of 8.7%. On the other hand, the highest efficiency ratio for S. Africa relates to the 0% to 5% tariff band, whilst for Zimbabwe the 30% to 20% has the highest ratio of 91.5%.

Figure 2: The relationship between tariff bands and collection efficiency rates*
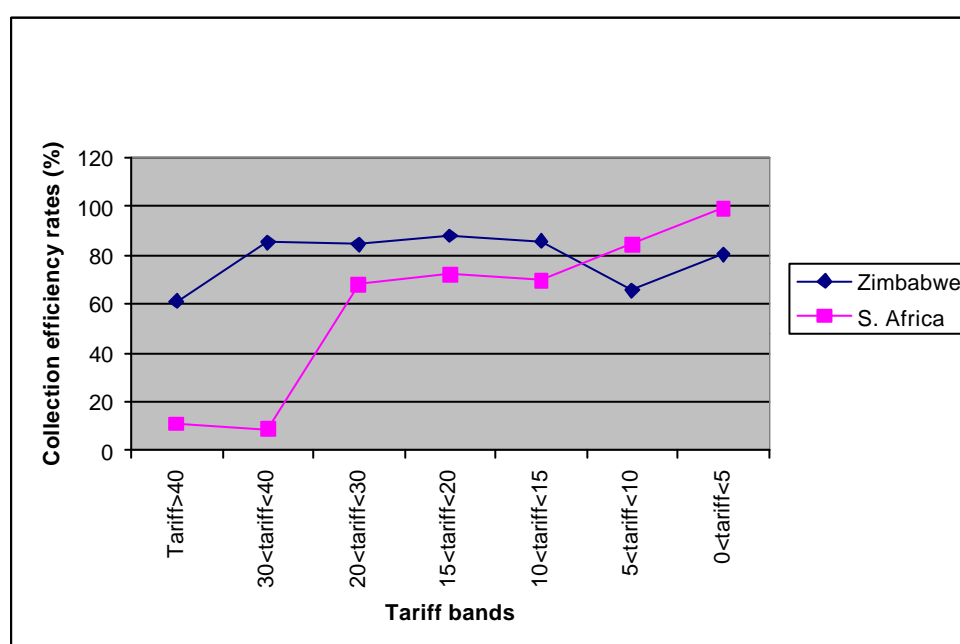
*Note that each broad tariff band includes the lower boundary, i.e., the sign > should read ≥.

Figure 2 shows that there is a general inverse relationship between tariff levels and revenue collection efficiency ratios, that is the higher the tariff levels the lower the efficiency ratios, however the inverse relationship is more pronounced for South Africa than for Zimbabwe. Higher tariffs acts as an incentive for economic agents to lobby for duty exemptions, which have the effect of lowering collection efficiency

ratios. Glenday (2000) asserted that it is politically easier to remove legislated exemptions as their relative duty declines. Furthermore it is easier for customs administration to enforce exemptions limits when the exemption value is lower thereby reducing the gains from customs fraud and the willingness of importers to offer bribes to capture these gains.

5. THE IMPACT OF THE EXCHANGE RATE POLICY ON THE TARIFF REGIME

In principle, Zimbabwe is currently running a fixed exchange rate policy, which has seen the Zimbabwean dollar pegged at Z\$55 to the United States dollar since 2001. The policy thrust is generally aimed at keeping a lid on imported inflation and reducing exchange rate volatility. However the acute shortage of hard currency and market sentiments that the exchange rate could be out of line with market fundamentals especially when one looks at wider inflation differentials between Zimbabwe and her main trading partners has created the following problems:

- Discourage the channelling of foreign currency through the official market, hence creation of the parallel market;
- Reduced the effectiveness of the tariff regime in deterring imports.

The overvalued exchange rate has rendered the tariff schedules discussed above ineffective in terms of protecting the local industry and revenue generation. Hypothetical scenarios shown in Table 6 illustrate the impact of the overvalued exchange rate on the usefulness of the Zimbabwe's tariff schedule.

Table 6: The Impact of the Overvalued Exchange rate on the effectiveness of the Zimbabwe Tariff Schedule

Scenarios	CIF (US$)	Exchange rate	VCDP (Z$)	Duty Rate (%)	Duty paid	Revenue Loss	Actual Duty rate
1	2000	55[1]	110,000	85	93,500		
2	2000	300[2]	600,000	85	510,000	416,500[3]	15.6%
3	2000	300	240,000	40	240,000		
4	2000	55	165,000	150	165,000	75,000[4]	

Notes : [1] Official exchange rate
[2] Minimum parallel rate to the US$
[3] Difference between duty paid in scenario (1) and (2)
[4] Difference between duty paid in scenario (2) and (3)
[5] VCDP: value for customs duty purposes

If we compare scenario 1 against scenario 2 in Table 6, it emerges that the government is losing Z\$416 000 for every consignment worth US\$2000, through the use of the overvalued exchange rate instead of using the parallel rate. The latter is the rate at which most business people use in their costing and buying of foreign currency. By implication the use of the official rate has rendered the punitive nominal duty of 85% ineffective as the actual nominal duty is now only 16% (dividing the duties collected 93,500 by the actual value that the imported have to raise, i.e.,

600,00). Furthermore if we assume a duty of 40% as in scenario 3, and using the parallel rate of Z$300 to US$1, duties collected will be higher even if the duty rate would be raised to 150% at the official exchange rate.

It is therefore clear that the tariff schedule can only be made effective by maintaining an exchange rate that requires no parallel market. However the question is whether devaluation will lead to improved price competitiveness of Zimbabwean products and hence generate more foreign currency through increased exports? This can only be possible if Zimbabwe and her trading partner's inflation rates are the same, or if inflation rates of her trading partners are higher than hers. The situation on the ground shows that any anticipated gains from devaluation in terms of improved price competitiveness that consequently lead to increased exports are remote given the inflation picture of Zimbabwe and her trading partners as shown in Table 7. It is both theoretically and empirically true that the foreign currency parallel market can be eliminated through devaluation and that price competitiveness can be maintained by keeping the real exchange rate constant by continuous adjustment of the Zimbabwean dollar in line with inflation differentials with major trading partners. However a sharp devaluation may be costly in the short run given that Zimbabwe's manufacturing industry is import dependent. Further work is required in this area particularly on the relationship between the real and nominal exchange rates, exports behaviour and the implication of devaluation on inflation.

Table 7: Inflation Rates of Zimbabwe and her Trading Partners as of March 2002

Country	Inflation (%)
Botswana	7.6
United Kingdom	2
United States of America	3
S. Africa	6.4
Zimbabwe	116.3[1]

Source: 1. Zimbabwe Central Statistical Office
2. Zimbabwe Independent

After realising that it was losing considerable revenue and that the tariff regime was no longer effective the Zimbabwean government in August 2002 published special exchange rates for customs duty purposes. These are shown in Table 8.

Table 8: Special Exchange Rates for Customs Purposes

| Country | Currency | Exchange Rates | |
		Official[1]	Customs Purposes[2]
Botswana	Pula	9.1308	48.1202
Britain	Pound	87.6247	461.7903
European Union	Euro	59.3960	312.9939
Germany	Mark	25859	135.3671
South Africa	Rand	5.6084	29.7302
United States of America	US Dollar	56.9250	300.0000

Source: Zimbabwe Revenue Authority
Notes : [1] This is the rate, which is legally recognised for all other business transactions.
[2] This rate is used by customs authorities in calculating customs duty of selected products in the Zimbabwe tariff schedule which attract duty rate of 40% and above.

As already noted Zimbabwe is running a fixed exchange rate policy and foreign currency should be bought and sold at the rates referred to as official in Table 8. On the other hand it is a tradition in Zimbabwe that the Zimbabwe Revenue Authority (ZIMRA) publishes exchange rates for customs purposes every second day of the week, which then applies for seven days. The ZIMRA rates are used for calculating customs duty by Customs authorities, i.e. CIF values are converted into Zimbabwe dollars before duty is charged. Over the years till August 2002 the wedge between the inter-bank exchange rates and rates meant for customs purposes ranged between 5-10%. The policy thrust which was announced in August 2002 as part of supplementary budget widened the wedge between the inter-bank exchange rate and the exchange rates for customs duty purposes to 445% with respect to the US Dollar. This policy move was aimed at reducing import demand (by making duty payment in Zimbabwe dollar terms more punitive) and to raise revenue, in other words it is aimed at reversing the scenario illustrated in Table 6. The term official rate has been coined to distinguish the fixed exchange rate from the parallel rate commonly referred to as the informal market rate.

6. CONCLUSION

The following lessons could be drawn from this analysis:

- Zimbabwe should work out a programme to reduce its tariff dispersion which range from 0% to 100%;
- Both countries should stream line their rebate schemes, as lower collection ratios reduce the effectiveness of a tariff regime in restraining imports in times of balance of payments crisis;
- There is need for further work to establish the extent of revenue loss which could be attributed to imports from Free Trade Areas.

Zimbabwean authorities should institute studies to evaluate the benefits and costs of the existing exchange rate policy and develop strategies to eliminate the shortages of foreign currency and consequently the parallel market.

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