



**Investigating the deindustrialisation process in Zimbabwe since 1980.**

**By**

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**University**

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**DECLARATION**

I, Brenda Zivanai, declare that the thesis hereby submitted for the degree of Master of Arts (MA) at the Midlands State University is my work and has not been previously submitted to another University.

Signature: .....

Date.....

Place: Midlands State University

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First and above all, I thank the Lord Almighty for giving me strength and wisdom to write this project. I thank you My God.

Allow me to thank my supervisor, Mr Munhande for guiding me throughout my project, it would have been difficult for me to produce this dissertation without your guidance, supervision and motivation. Thank you, Mr Munhande.

I would also like to thank my family for moral support. My husband Tawanda, my three brothers, Mum and Dad.

## **DEDICATION**

To my husband, my brothers, my parents, my sister Yeukai Thank you for support.

## **ACRONOMYS**

ATC	-Agreement of Textiles and Clothing
BAT	-Bilateral Trade Agreement
CABS	-Central African Building Society
COMESA	-Common Market for Eastern and Southern Countries
CRIB	-Cotton Research Industrial Board
CZI	-Confederation of Zimbabwe Industries
DIMAF	-Distressed Industry and Marginalised Areas Fund
EMA	-Environmental Management Agency
ESAP	-Economic Structural Adjustment Programme
EPZ	-Export Promoting Zones
FDI	-Foreign Direct Investment
GDP	-Gross Domestic Product
IMF	-International Monetary Fund
ISI	-Import Substitution Industrialisation
NRZ	-National Railways of Zimbabwe
OECD	-Organization for Economic Cooperation and Development
OFAC	-Office of Foreign Asset Control

POSB	-Post Office Savings Bank
RBZ	-Reserve Bank of Zimbabwe
SADAC	-Southern African Development Community
SEZ	-Special Economic Zones
UDI	- Unilateral Declaration of Independence
WTO	-World Trade Organization
ZESA	-Zimbabwe Electricity Supply Authority
ZETDC	-Zimbabwe Electricity Transmission and Distribution Company
ZETREF	-Zimbabwe Economic Trade Revival Facility

## ***Abstract***

*The study investigated deindustrialisation in Zimbabwe from 1980 which has become a major concern for the economy. The study mainly focused on the manufacturing sector in Zimbabwe. The researcher establishes through other researchers that deindustrialization in developed countries come as a result of economic development whilst developing countries is a result of an economy which is failing. The study identified the causes of deindustrialization in Zimbabwe such as sanctions, lack of funding, lack of foreign direct investment, poor technology and machinery. Also the effects of deindustrialisation were identified as high unemployment, low capacity utilization, brain drain, rise of informal sector, low contribution to Gross Domestic Product. The strategies which the government is implementing were also identified such as import substitution, disbursing of loans to industries, improvement of infrastructure, adjustments on the indigenization policy. The study also noted the improvements the industry has made so far and recommendations on what should be done for the resuscitation of the manufacturing sector was given.*

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## **Introduction**

This study seeks to explore the process of de-industrialisation in Zimbabwe since 1980. The study will be guided by theories and empirical studies carried out in other countries. The research will make use of survey strategy to obtain information from primary sources and desk research to gather data on the internet and other primary source documents.

## **Background**

By the 1940s, Zimbabwe already had a relatively developed industrial base, with the only integrated iron and steel plant in sub-Saharan Africa. It is estimated that by then, the manufacturing sector accounted for 10% of GDP and 8% of exports (Ndlela & Robinson, 1995). When the Federation of Rhodesia and Nyasaland involving what is now Malawi, Zambia and Zimbabwe was established in 1953, this accelerated the process of industrialisation, with much of the investment going to Rhodesia.

The collapse of the Federation in 1963 was followed by the Unilateral Declaration of Independence (UDI) by the minority white regime in Rhodesia in 1965, which resulted in the imposition of sanctions by the international community. This ushered in a new era of inward looking Import Substitution Industrialisation (ISI) and an intensive process of industrialisation where the state played a central role in resource allocation. A centralized foreign exchange allocation system was introduced, with an elaborate system of state enterprises and price controls. This foreign exchange rationing benefited the companies that were in existence in the late 1960s, undermining new and especially small enterprise growth. However, the state machinery operated in close consultation with the predominantly white private sector. The 1964

bilateral agreement with South Africa provided a basis for sanction-busting and the generation of the much-needed foreign currency.

Whereas the manufacturing sector accounted for 17% of GDP in 1965, its share had grown to 25% by the advent of independence in 1980. This is exceptional by Sub-Saharan African standards. While the share of manufacturing output in GDP in Zimbabwe averaged 23.3% of GDP during the period 1980-89, the corresponding figure for Sub-Saharan Africa was only 10.4%. Agriculture is the dominant sector in most Sub-Saharan African countries, contributing on average 31.6% of GDP during the period 1980-89. In the case of Zimbabwe, agriculture accounted on average for only 12.2% of GDP over the same period. Apart from its relative size, the manufacturing sector was diversified. On the advent of independence, industry already consisted of some 1,260 separate units producing 7,000 different products.

The manufacturing sector presents its own contradictions. The import substitution industrialisation strategy, which had performed well during the sanctions period, (particularly during the fastest growth period of 1966-74), was already showing signs of severe stress by 1980. All easy and moderately hard industrialisation had been exhausted by 1975 (Green and Kadhani, 1986). The deliberate policy of compressing imports to contain the balance of payments situation left capital stock in an obsolete and depleted state. The manufacturing sector itself became a net user of foreign exchange. Although it contributed 32.1% of export earnings in 1984, it accounted for 90.6% of imports during the same year. Furthermore, the high level of protection created a monopoly structure whereby 50.4% of manufacturing products were produced by single firms, 20.6% in subsectors with 2 firms and 9.7% in subsectors with 3 firms. This meant that 80% of goods produced in Zimbabwe were monopoly or oligopoly products (Ndlela, 1984; UNIDO, 1986). This market structure was further exacerbated by the

concentration of production in the two major towns, Harare (accounting for 50%) and Bulawayo (accounting for 25% of all manufactured products).

With the advent of independence in 1980, the country was readmitted into the international community. However, government retained the control measures of the pre-independence era. In this regard, government policy continued to favor big business, thwarting the growth of small and medium sized enterprises. However, in spite of the widespread controls, the World Bank (1989) found Zimbabwean industries to be highly efficient, thereby defying expectations and experiences elsewhere where controls were associated with gross inefficiency. As a result, World Bank support during the 1980s focused on establishing export incentives without pressing for the liberalization of the economy.

However, as the foreign exchange shortage hit harder, resulting in depressed investment and low levels of employment, the World Bank and IMF leveraged for the liberalization of the economy in the late 1980s. As a result of this pressure, government introduced the Economic Structural Adjustment Programme (ESAP) in 1991. Through ESAP, government shifted from the highly interventionist approach towards a more market-driven economy. The liberalization of trade was an important component of ESAP, and in fact Zimbabwe was way ahead of schedule on this issue. Other measures accompanying the liberalization of trade included the removal of export incentives, phasing out of the import-licensing regime, elimination of foreign currency controls and reduction in tariffs to create a tariff band ranging from 0 to 30% and achieving an export growth rate of 9% per annum.

These measures were followed by further liberalization within the multilateral context of the WTO since 1994 and the regional frameworks such as SADC Trade Protocol and COMESA Free Trade Area (since 2000).

To promote exports, government adopted the strategy of promoting Export Processing Zones (EPZs) through the EPZ of 1995. EPZs in Zimbabwe were established country-wide and not confined to industrial parks.

Following the opening up of the economy, the manufacturing sector, and especially the textiles, clothing and footwear sub-sectors were hardest hit by the closure of companies that accompanied the influx of cheap imports. Like other major producers of textiles and clothing and footwear, Zimbabwe was hit on two fronts, namely, I) cheap imports especially from Asia and particularly China are crowding out local producers on the home market and II) in third markets where the quota system is under threat following the expiry of the Agreement on Textiles and Clothing (ATC) in December 2004.

The crisis in the textile and clothing industries coincided with a national political crisis in Zimbabwe, which emanated from the fall-out of government with the people owing to the adverse impact of ESAP. For the purposes of this paper, it is important to distinguish the post-independence, pre-ESAP period (1980-1990), which was the period of continued import substitution industrialisation, the ESAP period (1991-95), and the period of political crisis when government undertook policy reversals and adopted a fire-fighting management, “crisis by crisis” approach (“ad hocism”). Consequently, the Zimbabwean economy is now mired in crisis as characterized by critical shortages of foreign exchange and a thriving parallel market, fuel, basic commodities, rising inflation (265.1% as at August 2005), punitive interest rates (of at least

300%), falling real incomes and widening income differentials, endemic unemployment (75%), poverty (80% of Zimbabweans live below the poverty line) and its feminization, onerous debt and the scourge of corruption.

After the implementation of the land reform program in 2000 resources, including labour, shifted from the industrial sector back to the agricultural sector. Industrial output fell by at least 47% between 2000 and 2007. However, agricultural production also decreased by 51% between 2000 and 2007 (IMF, 2007). GDP fell by at least 40% during the same period. This prompted a number of efforts by various sectors to try and revive the economy including the reserve bank of Zimbabwe and ZimTrade.

While cumulatively, real GDP declined by 31% during the period 1999-2004. Following a decade of economic decline and hyperinflation during 2007–08, Zimbabwe's economy has started to grow. The nascent economic recovery has been supported by a significant improvement in economic policies, but important policy challenges and significant vulnerabilities remain to be addressed.

In late 2008, hyperinflation led to abandonment of the Zimbabwe dollar in transactions and de facto widespread dollarization. The official recognition of the demise of the Zimbabwe dollar took place in February 2009, when authorities established a multicurrency system.

The results of the 2014 CZI State of the Manufacturing Sector Survey show a decline in the sector compared to last year. The slowdown being experienced in the economy at large has not spared the manufacturing sector. In 2014, average capacity utilisation continued to decline, shedding 3.3 percentage points to 36.3%. Quite telling is the prolonged effects of power cuts and



costs, liquidity challenges, low domestic demand and many others on the performance of the manufacturing industry.

### **Statement of the problem**

Despite being one of the most industrialized economy by 1940 in sub-Saharan Africa, Zimbabwe's industrial sector continued to shrink, with the manufacturing sector's contribution to GDP falling down from 30% at its peak in 1965 to about 12% currently, the annual GDP growth rate also continued on a downward trend, now standing at 1.7%. The manufacturing sector's capacity utilisation temporarily showed signs of recovery from below 10% in 2009 to approximately 57.5% in 2012 before it gradually retracted to 34, 2% in 2015. During the same period, companies continued to shed jobs as companies scaled down operations and some even closed down, worsening poverty levels.

Zimbabwe's economic decline occurs at a time when most African countries are achieving reasonable annual growth rates averaging 4.8%, mainly driven by sound and sustainable macro-economic policies. Government has come up with some measures aimed at stopping this unwanted trend with little or no signs of success. It is against this background that this study seeks to investigate the process and causes of de-industrialisation in Zimbabwe since 1980 in order to have deep insights in the whole process and come up with policy recommendations for growth.

## **Objectives of the Study**

The research has the following objectives.

1. To establish the trend of de-industrialisation.
2. To investigate the root causes of de-industrialization.
3. To determine the impact of de-industrialization on economic development
4. To come up with policy recommendations/remedies to prevent further de-industrialisation.

## **Research Questions**

The study will be trying to answer the following research questions to achieve the above objectives.

1. Why Zimbabwe continues to experience de-industrialization?
2. What is the impact of de-industrialization?
3. What is the trend of de-industrialisation in Zimbabwe since independence?
4. What are the mitigating strategies to prevent de-industrialisation?
5. How government has intervened to prevent de-industrialisation?

## **Justification of the study**

The research provides deep insights on the extend of, root causes and possible ways of mitigating the de-industrialisation process in Zimbabwe. Zimbabwe used to be on top in terms of industrialisation performance in the sub-Saharan Africa. The de-industrialisation has many

negative consequences ranging from economic, social and political, hence there is need to critically analyze the process and come up with sound policies to address the problem.

Additionally, this study aims to contribute to and fill the gap on the current vast information and knowledge on de-industrialization process in Zimbabwe.

### **Assumptions of the Study**

- i) The study assumes that the key causes of de-industrialization and the impact will be derived from the manufacturing sector.
- ii) No clear knowledge exists on the phenomenon of de-industrialisation.

### **Scope of the Study**

The study will be confined to the Zimbabwe for the period 1980 to 2016 and the survey will be conducted on the manufacturing firms in the clothing and textiles, metals and electrical, food and beverages, wood and chemical sector and the leather sector.

### **Literature Review**

The literature review will explore various theories and studies and other information available in source documents to gain insights into the process of de-industrialisation. Various scholars have carried out studies and proposed theories to explain the process of de-industrialisation.

## **Definition of de-industrialisation**

Bluestone (1984) defined the process of de-industrialization as a decline in manufacturing output, flight of jobs from cities and closing shop of industry due to globalization. Therefore according to Bluestone de-industrialization is evidenced when a country opens up for international trade before it is well prepared. Marin (2004) on the other end defined deindustrialization as primarily a natural outcome associated with the development of modern societies, and resulting from demand, supply and relative price effects.

Therefore, according to Marin, competition from other countries or regions (via specialization or offshore outsourcing) is responsible for only a limited part of the above phenomenon. According to Warn (1988) de-industrialization is basically defined as; the long-term absolute decline in the manufacturing sector. This decline can be evaluated in terms of the share of the employment in manufacturing to the total employment of the designated area (town, country, and region) with a focus on social scale or in terms of outputs in the manufacturing sector in an economical view. Kuncoro (2007) argued that de-industrialization is a decrease in the role of the industry in the economy as a whole. The declining role of the industry can be seen from the decrease in the amount of workers, number of products in the industry, and role of the industry sector compared to other industries national income.

## **Indicators of de-industrialization**

Sachikonye (1995) reported that there are a number of indicators of de-industrialization and these are:

- Significant declines in industrial output, the manufacturing sectors share of GDP, and manufacturing employment.
- Company closures.
- Low capacity utilization
- Declines in factory output and employment
- Changes in industrial sector which does not move the economy towards greater efficiency
- Policy reforms which impede long-run industrial growth and transformation by inhibiting the pace and pattern of investment.

### **Theoretical View**

There are a number of theories put forward that help to explain the process of de-industrialisation. This section will look at some of the theories explaining the phenomenon.

### **Globalization and de-industrialization**

Bluestone et al. (1982) have implicated globalization in the de-industrialization of developing countries. According to them opening up to international trade when a country is not yet ready in terms of comparative advantage may be suicide. This facility of motion, combined with international competition, caused, according to Bluestone, the more serious problem of de-industrialization. Kucera and Milberg (2003) share the same sentiments with Bluestone as they attribute de-industrialization in ten OECD countries between the late 1970s and the mid-1990s primarily to globalization. Wood and July (2009) postulated that China's engagement with the

global economy has de-industrialized other developing countries. Brady and Denniston (2006) found out that the labour intensive manufacturing sectors of most African countries have been hit by Chinese competition in their home markets, a complaint often heard in Africa and Latin America. The globalization effects on countries is worrying because industrialization is vital for development, manufacturing provides jobs and therefore the net impact of China could be both slower growth and greater inequality in the rest of the developing world (Trachte, 1990).

### **Big Government Theory**

Bluestone and Harrison (1982) argued that the U.S economy de-industrialized as a result of government interference that presented barriers to economic growth, charged high taxes, had generous welfare programmes, and business regulation. According to Bluestone and Harrison, the corollary is “big unions- that unionized workers and asked for too much and had it too good. However Stein (1998) opposes Bluestone and Harrison and attributes the deindustrialization of the U.S to government neglect. Stein emphasizes the culpability of lax or neglectful government policy and private corporations favoring disinvestment to modernization and adaptation.

## **Failure Thesis**

According to Rowthorn and Wells (1987) this is a direct indication of poor economic performance, output and employment in manufacturing which are judged to have failed to achieve their potential and as a result deindustrialization takes place. They also point out that deindustrialization is a sign of economic failure which occurs when industry is faced with challenges.

## **Mitigating Strategies of de-industrialization**

According to Economist Bluestone (1982) reported that the process of de-industrialization is a microeconomic problem that cannot be solved by the free market, and must be addressed by members of the private sector, labour, and government. Hersh (2003) pointed out that there is empirical evidence that supports the fact that the U.S manufacturing's decline was attributable to a specific set of economic policies hence pointed out the idea that clear policy measures could be taken to address the manufacturing sector's decline and to stabilize growth prospects for an economy. Hersh pointed out that the evidence of the U.S. de-industrialization raised red flags for U.S. policy makers, given manufacturing's long-recognized contribution to economic growth and prosperity, as well as the problematic manufacturing-driven trade and current account deficits.

Tregenna (2011) stressed that policy interventions by the government might be able to reverse consequences of de-industrialization. However, Tregenna pointed out that there is need to recognize that it is generally difficult to build up lost production capacity, because of micro-level factors such as loss in market share, fixed capital, networks both in input sourcing and output markets, skills, tacit knowledge, and the other institutional qualities that are built up over time.

According to Visaria (2006), the government is the natural and in many cases the only provider of efficient, speedy and fair courts. Healey (1994) stated that in order to successfully reverse decades of economic decline, the Government must do the following:

- Recognize the importance for manufacturing (and business generally) of low, stable inflation and interest rates and a predictable exchange rate.
- Increase government funding for basic research and development (R&D), (for example, in universities and private sector research agencies). Use public money to leverage more university-linked science parks and avoid any temptation to 'pick winners', but use public resources (e.g. universities) to support co-operative research and development ventures between private sector companies.
- Offer tax relief on manufacturing investment at a higher rate than the standard rate of corporation tax.
- Extend the tax relief on vocational training, providing tax credits in excess of the cost of training (or tax relief at a special, higher rate). Training provides benefits to the wider manufacturing sector over and above those to the companies paying for the training.
- Use the educational funding bodies to encourage alliances between companies and educational institutions to develop joint integrated training schemes which can be externally validated and certificated.

Tregenna (2011) reported that decisive and effective industrial policies by government are required, along with a macroeconomic environment that does not contribute to the further emasculation of industry. According Koistinen (2006) de-industrialization in Massachusetts produced two principal policy responses at the state level. Business associations worked to cut back government social programs and reduce corporate taxes so as to reduce production costs.



## **Export incentives**

According to Hersh (2003) export incentives are important since this will increase the performance of the manufacturing sector and this will also reduce the trade deficit. Also (Zimtrade 2012) indicated that governments should offer regionally competitive incentives to their local exports to improve manufacturing sector.

## **Import Substitution**

According to CREDO (2010) import substitution is a trade policy that a country implements in order to substitute imports with domestically produced substitutes. The policy need an active industrial policy that promote production of strategic substitutes and also should involve the public sector investment infrastructure and easy access to funds, protective barriers to trade which can be tariffs and quotas to protect domestic industry. Thus also according to Schimtz (1984) if the imports are high than exports there will be trade deficit and adaptation of this policy will make an economy to be self-reliant and independent thereby accelerating growth.

## **Small and medium enterprises**

According to Palma (2005) small and medium enterprises are important to almost all economies in the world and mostly to the developing world since they will be facing challenges in employment and income distribution. Also (Youcef 2014) pointed out that small and medium enterprises can create many jobs that will absorb a large proportion of people thereby solving unemployment problems and also contributing to the economic growth. Unlike large

corporations which need large capital investments, high technology and lot of funds these don't require a lot of amount to start up.

### **Technology Advancement**

Bluestone (1982) points out that for firms to increase output there is need for technological advancement. Lavop (2015) noted that technological process were important in the first industrial revolution in the 18<sup>th</sup> century, for second revolutionary for the industrialisation of Continental Europe and U.S.A and also for third revolutionary of Japan and East African. It is also noted that technological gaps characterize differences per capita and productivity between countries. Thus Dahman (2007) notes that technology advancement is important tool in the globalization and also to be competitive. The technology advancement increased output for example the introduction of gas and electric lighting increased the length of the working day and the coordination of activities was improved by the introduction of telephones and telegraphs. (Lechevalier 2011) points out that the manufacturing process of any country can

### **Domestic Protection**

Reinhardt (2008) indicated that trade measures are needed to protect the local manufacturing industry and to prevent deindustrialization of a nation being caused by globalization. These measures take three forms which include:

### **Anti-Dumping Measures**

Reinhardt (2008) defines antidumping as tariffs which are added on ordinary customs duty to counteract unfair practices (marking the price low) by foreign companies and this will threaten the local producers. There is need for government intervention for instance when the United States steelmakers were unfairly dumping rails to Canada harming Canada steel industry. CZI (2012) in the manufacturing sector survey indicated that it was high time the government should also enforce antidumping laws to help the local industry.

### **Countervailing Measures**

According to Reinhart (2006) the countervailing which can be called anti- subsidy measures are tariffs in addition to ordinary customs duties levied to offset the benefits gained by foreign exporters through subsidies given by their government. This also causes injury to the local industry of the country they will be exporting to.

### **Safeguard Measures**

Reinhardt (2008) indicated that safeguard measures are temporarily restrictions typically tariffs and quotas imposed to protect the local industry to the overwhelming of imports. The increase of imports may cause harm to the competing industry in the importing country which leads to economic and social problems. Finger (1991) argue that some economists regard trade remedies as disguised protectionism against the idea of free trade and Lattimore (2009) concurs by saying that closure of borders have a negative impact as consumers pay more and choice is limited.

## **Methodology**

The methodology gives details of the research process adopted and continues with an explanation of the data collection and data analysis methods employed by the researcher. The method used by the researcher is discussed and justified. A mixed research design was used, that is both quantitative and qualitative research designs were used to gather and analyse the numerical and qualitative data obtained.

Triangulation research method was used in data analysis. A mixed methods design is important in tapping from advantages of a combination of both qualitative and quantitative data collection techniques and analysis procedures. For this research, both quantitative and qualitative research methods were used to collect and analyze data. Some numerical data was collected on the level of capacity utilisation, production output and employment in the manufacturing sector. The quantitative method used graphs and tables to present data.

The research used inductive approach to understand and interpret the meanings in the behavior of performance of industry since 1980. Specific observations on the trends in industrial performance using a number of measurable indicators were made and some qualitative attribution was made to associate performance of industries with certain variables including Government policies. The research does not involve developing a theory and hypothesis (or hypotheses) and design a research strategy to test the hypotheses. The approach involves data collection and come up with general conclusions.

The research adopted a longitudinal research to analyze change or development that occurred over a period of time, that is, 35 years. Adam and Schvaneveldt (1991) suggest that in

longitudinal studies is very useful in studying human behaviors and development. This research tries to investigate the process of de-industrialisation in Zimbabwe over a period of 35 years, from 1980 to 2015.

The main approach which was used for data collection was secondary data. Data was collected from Confederation of Zimbabwe Industries, reports on the status of the manufacturing sector from the Ministry of Industry and Commerce, Industrial Development policy, Midterm Fiscal Policy, ZIMSTATS, Reserve Bank of Zimbabwe, journals, books and various business organizations, for example ZIMTRADE, were used to collect data. The purpose of making use of secondary data was to explore the existing literature and explore the various facets of de-industrialization since it gave an in depth investigation on the trend, causes and effects of deindustrialization.

The researcher used mainly the past records since the research was stretching back to 1980 and some of the companies has since closed and also the employees at the companies are changing time and again.

Informant interviews were used mainly to solicit qualitative data from policy makers on the strategies which are being employed for industrialisation. Informant interviews were used to gather information direct from Ministry of Finance and Economic Development, Ministry of Industry and Commerce, Ministry of Small and Medium Enterprises and Cooperation Development. The researcher employed non-probability techniques. Purposive sampling was used to pick respondents of interviews for the strategies which are being used by the government. Key respondents included 6 from the Ministry of Industry and Commerce, 2 from Ministry of Finance and Economic Development and 2 from Ministry of Small and Medium Enterprises.

These respondents were chosen specifically since they are involved in crafting of government policies for industrialization. Most of the questions were directed to the Ministry of Industry and Commerce since it is their mandate to monitor the activities of the manufacturing sector. The interviews offered a great advantage of probing more on Government policies and were very helpful in providing quick responses.

The major drawback was time management between carrying out interviews with manufacturing sector companies and work schedule. The research then made use of secondary source documents to gather information. This was compounded by the financial constraints to make physical visits to companies as that would require transport money.

## **STRUCTURE OF THE DISSERTATION**

### **Chapter 1**

The overview of deindustrialization in Zimbabwe

The chapter will look on the status of the manufacturing sector and causes deindustrialization in Zimbabwe.

### **Chapter 2**

Effects of deindustrialization on economic development.

The chapter will look on the effects of deindustrialization on the economic development.

### **Chapter 3**

Strategies to prevent further deindustrialization

The chapter will focus on the strategies that are being used to prevent further deindustrialization.

### **Chapter 4**

Notable improvements in the manufacturing sector

The chapter will focus on the notable improvements in the manufacturing sector and what can be further done to boost the sector.

## **Chapter 1**

### **Overview of Deindustrialization in Zimbabwe**

#### **1.1 Introduction**

Zimbabwe's manufacturing sector has gone through deindustrialisation and currently is experiencing low capacity utilisation levels, low productivity levels thereby making the sector less competitive in the global market. Zimbabwe used to have a well-developed industrial infrastructure and manufacturing sector, being one of the strongest and most diversified in Sub-Saharan Africa. Manufacturing sector had been the highest contributor to the country's GDP accounting for more than a third of the country's exports. It contributed 17% of G.D.P in 1965 and increased to 25% after independence in 1980. According to Sachikonye (1999), by 1987 manufacturing sector was the second largest employer of labour with a total number of 175 000 people being employed in the sector representing 16% of the labour force in the formal sector. In 1965 the exports from the manufacturing sector contributed to the 50% of the total exports. After Independence the sectors like textiles, drinks and tobacco, clothing and footwear, chemical and chemical products grew rapidly. The sectors which had fastest growth in employment were clothing and footwear, paper, printing and publishing, chemical and petroleum products and transport equipment. The sector played an important role in the backward and forward linkages in the economy given that it supplied most of the inputs required by agriculture and also processed much of the output from this sector. Though it played a crucial role its export competitiveness was quite limited in the 1980s thus the export from the sector declined between 1981 and 1986 but increased at the rate of 6.8% between 1986 and 1990. (ZEPARU 2014)The manufacturing sector is diversified, producing many different products as well as absorbing



much of the agricultural and mining output. The main sub-sectors are beverages, metal products, chemicals and pharmaceutical products, textiles and leather. State participation exists in some parts of the sector but is, in most cases, being gradually reduced through privatisation. In the 1980s, the manufacturing sector comprised eleven major industrial groupings. The largest grouping, in terms of growth output, was the metals and metal products sub-sector, which accounted for 24.7% of total manufacturing output, followed by foodstuffs including the stock feeds sub-sector, at 14.3% and textiles at 14, 2%. The manufacturing sector produces about 6000 commodities thus ranging from food to clothing, fertilisers and chemicals, metal products and electrical machinery. The manufacturing industry is closely linked with an excess of 60% of manufacturing value added either related to agro- industry or to the provision of inputs to the agriculture sector ([www.invest.com](http://www.invest.com)). According to ([www.theafricareport.com](http://www.theafricareport.com)), the capacity utilisation has dropped to 34, 3 % from 36, 3% of last year. It is also shown that small companies with employee establishment of between five and nineteen the capacity utilisation is 26%, medium companies operating with 20 to 99 employees operating at 31,1% and the larger firms with more than 100 employees operating at 43,1%.

## **1.2 Clothing and Textile**

Zimbabwe's clothing and textile used to perform very well in the late 1980s and early 1990s thereby contributing to 5% G.D.P and employing over 35 000 people. In the 1990s the clothing and textile employed more than 50 000 workers, mostly women and children and even after the economic decline of 2008-2008 more than 11 500 people were employed. The sector is of vital importance to the majority of citizens of Zimbabwe since cotton which is used as the raw

material in the sector provides a livelihood to more than a million Zimbabweans including farmers and their families. (Zimbabwe Cotton – to Clothing Strategy 2014-2019). According to Zimtrade (2012), the sector provides the early stages of economic upgrading or diversification from dependency on primary commodities and also has forward and backward linkages. The sector provides important commodities which includes clothes and blankets which are needed in almost every country.

The origins of textile and clothing sector came as a result of the government looking for other opportunities for revenue since they realized that they were not getting much from mineral deposits as they had found in the Union of South Africa. There was establishment of the Cotton Research Industry Board (CRIB) and three ginneries that were established in Kadoma. The first spinning machine was constructed in 1941. The sector grew and companies started exporting to the Union of South Africa and a bilateral trade agreement was signed between two countries in 1948. In the 1980's the sector grew rapidly with fifty percent of the textile and sixty- one percent of the clothing manufactures commencing their business operations between 1980 and 1989. The growth of the sector during this period could be attributed to tariff and quota restrictions, export and investment promotion schemes, and Zimbabwe's central location in the Southern Africa region, new infrastructure and educated labour. Zimtrade (2012).

According to ZEPARU (2014), the share of clothing and textile in manufacturing output declined from 11.3 percent to 7, 9 percent in 1995 due to ESAP. The decline of production during this period is believed to have been caused by the influx of cheap imports due to liberalization of trade. By 1997, the clothing and textile industry had been adversely affected by the collapse of Zimbabwean dollar exchange rate and sharp interest rates increase. According to Zimtrade (2012), over 100 clothing and textile firms had permanently shut down. During the period

between 2000 and 2010, the macroeconomic environment was not conducive for business, mainly characterised by high inflation.

### **1.3 Engineering and metal sector**

According to ZEPARU (2014), in their Engineering, Iron and Steel Industry Value Chain Analysis, Zimbabwe had a vibrant had a diversified engineering and metals sector which dominated the SADAC region except South Africa. The engineering and metals are subdivided into eight major levels which are as follows ;raw material extraction, metal processing, metal forming, metal fabrication, equipment assembly, product distribution, metal forming, metal fabrication and machine assembly where the most core actors will be centred. The sector's commodities can be classified into two categories thus the metal and metal products and the downstream engineering products. In the metals and non-metal products they are nonferrous and ferrous product categories. Engineering commodities classification followed the international codes and focused on the manufacturing of structural metal products, tanks, reservoirs and steam generators, manufacturing of general purpose machinery, radios, TVs, electronic equipment, manufacturing of motor vehicle bodies manufacturing of jewellery, manufacturing of electric machinery and components, manufacturing of iron and steel and manufacturing of complete civil construction parts.

The trade deficit within the sector from 2008 to 2012 was USD3, 3 billion giving about an average deficit per year of USD 660 million. The exports during the same period constituted 41% thus USD 7 billion against 59% thus USD 10 billion. The main exports were precious

metals, base metals, ores and iron and steel, whilst the main imports were vehicles and components consisting of machinery, boilers, equipment, parts, and electronic machinery and parts. The non-operation of ZISCO is the major missing link in the chain, depriving the metals and metal products sector of over USD3billion in revenue per annum. The operating environment was very tough for the players with the main problems being working capital constraints, political instability, lack of financing mechanisms, antiquated machinery, corruption, low demand on the market, high production costs, stiff competition from imports and labour issues amongst others. Power and water shortages and a dysfunctional rail network also worsened the operating environment leaving the sector on the brink of collapse. According to Sachikonye (1999), the metal industry is a leading subsector in terms of size, output and employment capacity. The metal sector in 1982 had 408 firms accounting about 29% of the total number of firms in the manufacturing sector, 21 percent of gross output and 24 % of total employment in the sector. By 1993 the metal sector employed 43 000 workers being 21 % of total employment in the manufacturing sector.

#### **1.4 The chemical industry, fertiliser and pharmaceutical Industry**

The chemical industry of Zimbabwe provides a wide range of products which include fertilisers, pesticides, paints, pharmaceutical, cleansing products and soaps ([www.invest.com](http://www.invest.com)). According to Industrial Development Policy (2012-2016), the fertiliser and chemical industry has a strong impact on the manufacturing sector since it is one of the key drivers of agriculture sector which provides most of the industrial raw materials. The fertiliser and chemicals sectors is dominated by major 4 players which includes Zimbabwe Fertiliser Company (ZFC), Windmill, Zimphos

and Sable Chemical and the average capacity utilisation is 30%. Most of the raw materials needed in the manufacturing of compounds and Ammonia Nitrated are imported. Sable Chemicals which manufactures Ammonia Nitrate currently is importing Ammonia from South Africa which will then be converted to Ammonia Nitrate. The pharmaceutical sector currently is exporting about 10% of its product, it used to be the second to South Africa producing 65% of essential drugs list but currently it is facing challenges since CAPS pharmaceutical one of its players which used to contribute more to the exports is operating at about 5% capacity utilisation. The sector is negatively affected by lack of credit lines, competition from imported drugs, drug donations, power shortages and prolonged registration times. (Ministry of Industry and Commerce 2016).

### **1.5 Leather Sector**

According to Zimtrade (2012) the categories in the leather sector are hides and skins, finished leather and finished leather products. The sector is currently operating around 20 % capacity utilisation. Currently Zimbabwe has 8 tanneries which include Imponente Tanning, Wet Blue Industries, Prestige Leathers, P.T.Royal Ostrindo, Bata Tannery, Spencer's Creek, Belmont Leather and Eagle Tanning. In the past years most of the players in the sector were small and medium enterprises. The main sources of leather are bovine, goat and sheep. Other sources include ostrich, reptiles, fish skins, buffalo and elephant. The sector employs about 7 840 in 2001 and currently employs approximately 1 962. (IDP 2012-2016). The farmers supplies cowhide and skin, the quantities of hides and skins produced monthly stand at 35 000 and can be increased to 45 000 at full capacity. The sector is facing competition from imported products; in

2008 the imported leather products were valued at US\$2,831,814. The sector is dominated by few companies which include BATA, Superior holdings, Dos Santos & Sons, Eagle tanning Midrion Tanning, Belmont leather, Tripple Tree Foot wear and Tambudze Tanning. The companies which have closed in the sector are as follows Wetblue, Zimhides, SouthEast Tanning, GND shoes and Konde shoes. Zimbabwe is currently exporting wet-blue to Italy, China, and other European countries and within Africa Zimbabwe was the second highest exporter of Bovine Wet Blue to Italy. The country's major export earner of the sector is finished leather. The sector is facing many challenges which include competition from imports, shortages of hides and skins, lack of markets, lack of skilled work force, electricity outages, high operational costs, high import duties, old machinery and uncompetitive prices on the export markets. (Zimtrade, 2011).

## **1.6 Food and Beverage Sector**

Zimbabwe's food and beverage sector used to be well established and diversified since it was supported by the agriculture sector which performed very well in the past. The sector has strong backward and forward linkages with other sectors such as packaging, transport and distribution. The concentration of the factories in the sector is high in Harare covering about 63% and 37% in other cities. The processes that are common in the sector in Zimbabwe include canning, milling, baking, brewing, milling drying and oil expressing. The industry has few developed players since most of them are still acquiring machinery and equipment. The development of the sector has also been affected by persistent droughts, land lying idle after land reform and economic hardships. Though most companies are facing difficulties some are fighting competition for

example Delta managed to acquire new bottling machinery for alcohol and soft drinks and also Surface Wilmar for cooking oil. The major exports markets in the food and beverage sector are Zambia, South Africa, Malawi, Mozambique and Democratic Republic of Congo (DRC). The challenges that are being faced in the food and beverage sector include electricity and water cuts, high operational costs, outdated technology, competition from imports and low working capital. (Zimtrade. Bhonyongwa 2011).

For the past years the capacity utilisation in the manufacturing sector has been low, according to (RBZ Quarterly Economic Review, 2014) the capacity utilization levels declined progressively from 56% in 2011 to 44, 6% in 2012 and 39, 6% in 2013 as illustrated by the table below:

**Table 1:1 Capacity utilisation levels in the manufacturing sector**

<b>YEAR</b>	<b>CAPACITY UTILISATION</b>
2009	32.3
2010	43.7
2011	57.2
2012	44.9
2013	39.6

Due to the difficulties in the operational environment some players in the manufacturing sector have ceased operations and example of these companies is ZISCO, David Whitehead, Wetblue Industries, and Cold Storage Commission. The closure of companies has resulted to job losses to

those in the formal sector in Zimbabwe. According to the Employer’s Confederation of Zimbabwe as illustrated in the RBZ Economic Quarterly Review of 2014, a total of 4007 and 2376 employees were retrenched in 2012 and in 2013 respectively. The table below shows number of workers retrenched in each quarter from 2013 to 2014.

**Table 1:2 Number of employees retrenched in the manufacturing sector**

<b>Quarter</b>	<b>Number of Retrenches</b>
January- March 2013	494
April- June 2013	585
July-September 2013	491
October-December 2013	806
January- March 2014	1 326

Zimbabwe has also witnessed an increasing number of companies being placed under judicial management. According to( RBZ Quarterly Review 2014) from the data obtained from the Master of High Court companies which were put under judicial management rose from 9 in 2010 to 37 in 2013 and example of these companies are Blue Ribbon, David Whitehead and ZIMASCO.



## **1.7 CAUSES OF DEINDUSTRIALIZATION**

The causes of deindustrialisation in Zimbabwe are a subject of debate in the country. Opinions stretch from politicians who accuse sanctions and the others groups which include economists, opposition, civil society argues that the political environment is not conducive for investors moreover some of the policies like Indigenization policy scares away the investors .Zimbabwe has faced deindustrialization and this is evidenced by the downsizing of companies and the shrinking of the economy. Many studies have argued that increase in productivity of the manufacturing sector causes deindustrialization in developed economies. The Zimbabwean scenario is different since the productivity in the manufacturing sector was reported to be low and its capacity utilisation has also been low (CZI, 2015). According to Rawthorn and Ramaswamy (1997) in Mbira (2015), the main cause of deindustrialization is the increase in productivity. They pointed that deindustrialization came as a result of economic development thereby producing positive results. They explained three phases which are experienced by most developed economies are the growth in the agriculture being followed by industrialization stage in which manufacturing sector overtakes the agricultural sector and the deindustrialization phase where the services also outperform the industrial sector. They also pointed out that deindustrialization can be also a result of difficulties linked to the manufacturing sector (Rawthorn and Ramaswamy, 1997). Deindustrialization in Zimbabwe has been caused by the following factors below;

### **1.7.1 Lack of access to funding**

Any industry to be viable needs funds thus for recapitalisation and working capital, to buy raw materials and machinery and for payment for utilities bills. According to Kuhnen (1986) the modernization theory point out that internal factors such as lack of communication, equipment

and infrastructure cause underdevelopment so it is vital for industries to have access to funding to have all these fundamentals for growth in place. The theory of stages of growth by Rostow says that as the economy develops from the traditional society to transitional stage then to take – off to take- off stage and drive maturity there is need of improvements in technology and infrastructure and there should be funding for all these to be successful same applies to manufacturing sector in Zimbabwe needs funding to grow. The Zimbabwean manufacturing sector is faced with shortage of funds. Most of the companies are finding it difficult to acquire loans from the banks due to high interest rates. The government which is trying to revive the industries is also facing challenges to raise the funds thus according to (ZEPARU 2013) through the Mid-Year Fiscal Policy Review Statement 2011, the Distressed Industry and Marginalised Areas Fund (DIMAF) were introduced to assist the companies. It can be noted that government had promised to disburse US\$20 million but due to fiscal problems failed to avail its share leaving Old Mutual’s share of US\$20 million available for the industry. Also due to low performance some companies lack collateral which is a condition by banks to get loans making it difficult for these companies to access loans. According to Mbira (2015), the firms in the manufacturing sector companies accessed funds at a higher cost thereby increasing the operating experiences. It is also shown that the interest rates were very high ranging from 20 to 25% per year resulting in many countries failing to repay back the loan. The funding issue was even made worse by the sanctions which were imposed in Zimbabwe around 2000. The sanctions had serious effects on the economy of Zimbabwe, not talking of the inflation rate which reached officially around 231 million. By then the country was a net importer of most of the goods and this include finished goods and raw material since there was not much production in the industries. For the importation process to be easy there is need of foreign currency but they were

restrictions of foreign currency to the country, many companies failed to access foreign currency or if they would get it the exchange rate will be very high. It can also be noted these sanctions caused a multiple of problems such as shortage of foreign currency for critical imports, interest rate and exchange rate distortions, high unemployment rate, declining of levels of domestic and foreign investments, deindustrialisation and negative economic growth rates and drying up credit lines. (Mugauri 2010). According to Hove (2012) Zimbabwe was denied access to international loans because of sanctions. In March 2000, the US senate denied Zimbabwe access to international loans, in May 2000 the International Development Association (IDA) suspended almost all forms of lending thus leaving the country desperate for funds for economic growth in the country and in 2001 Britain cancelled a package worth US 5 million dollars which was meant for Zimbabwe. The companies suffered since they could not access loans because the government was having challenges in getting the loans.

### **1.7.2 Sanctions**

Zimbabwe was placed under sanctions since 2000 due to disputed election results and reported cases of human rights abuses and bad governance practices. When sanctions were imposed the country was suspended in almost all forms of lending by International Development Association and some of the aids which the government was looking forward were cancelled for instance Britain cancelled a package which was worth US 5 million dollars (Hove 2012) Sanctions have blocked the traditional avenues for funding of the industrialization initiatives from international financial institutions such as World Bank and the International Monetary Fund. A typical example is of the Government industrialization arm, that is, the Industrial Development


Corporation whose financial transaction had been intercepted by OFAC. Of recent the IDC has been removed on the list of organizations which were put under sanctions. ([www.herald.co.zw](http://www.herald.co.zw)) In addition, investors are scared to engage in transaction or investment deals with organization such as ZISCO because of sanctions.

### **1.7.3 Lack of Foreign Direct Investment**

Foreign direct investment is important for the manufacturing sector in Zimbabwe since most of the companies don't have the capacity to carry out their operations. Due to sanctions the country is lacking foreign direct and the country's capital account has been in deficit since 2000 as result of the perceived risk in the country by investors. Most of the international investors are preferring to invest in other countries than Zimbabwe because they are not confident of the environment in the country. ([www.rbz.org](http://www.rbz.org)) According to CZI (2015), some of the unattractive policies like indigenisation policy have caused deindustrialisation because for an investor to invest in a country the environment should be friendly. According to World Bank Report 2016 Zimbabwe is ranked 155 out of 189 and this is an indication the environment in the country is not conducive for investors. The ease of doing business index is constituted by indicators such as starting a business, dealing with construction permits, getting electricity, registering electricity, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency. The table below shows Zimbabwean ranking with respect to each of the indicators below.

#### **Table 1.3 Zimbabwe's easy of doing business ranking**

Topics	DB 2016 Rank	DB 2015 Rank	Change in Rank
Starting a Business	182	179	↓ -3
Dealing with Construction Permits	184	185	↑ 1
Getting Electricity	161	160	↓ -1
Registering Property	114	114	No change
Getting Credit	79	90	↑ 11
Protecting Minority Investors	81	87	↑ 6
Paying Taxes	145	142	↓ -3
Trading Across Borders	100	99	↓ -1
Enforcing Contracts	166	166	No change

Resolving Insolvency	152	156	 4
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Doing Business reform making it easier to do business. ~~X~~=Change making it more difficult to do business.

#### 1.7.4 Poor infrastructure

For an economy to be competitive and viable there is need for good infrastructure. According to Castaneda (2000) developed infrastructure facilitates the reliability of services, reduction time of delivery, low production costs and reduction of the time of delivery of goods. In most developing countries due to lack of adequate infrastructure the economic growth is less than in developed countries. In Mexico a research on the impact of infrastructure on Mexican manufacturing showed that 10% growth in investment of assets of highways contributes to an increase in manufacturing output, an increase in electricity supplies at reduced cost also increase output and also investment in transport cut the costs of transport. Infrastructure development is important for an increase in the growth of manufacturing sector since most of the costs will be reduced and also speed in the delivery of goods will be improved. According to CZI Report (2012) the five most problematic infrastructure causing deindustrialisation in Zimbabwe are power cuts and shortages, inefficient railway network within the country, water shortages, poor road infrastructure and absence of a well-developed rail network which links the country to the ports. According to Damiyano (2012) electricity is a constraint to 46, 8 % of the firms whereas the manufacturing is faced with 6, 7% electricity outage and it was noted that Kariba and Hwange were producing 1 050 megawatts and operating at 54% which will not be sufficient for the

industry. According to Nyarota (2015), companies in Botswana, Mozambique, South Africa and Zambia are charged an average of 8, 30 US cents per kWh whilst in Zimbabwe the companies pay about 12, 72 US cents indicating a very high tariff which will contribute to higher costs of production and also due to the price of electricity load shedding mechanisms are in place thereby disturbing the production at industries. From the comparison with the other countries as noted above it can be seen that due to the high cost of electricity the manufacturing sector won't be able to produce at full capacity. The effect of the price of electricity can be seen in companies like Sable Chemicals have a big debt about US\$150 million (www.chronicle.co.zw accessed on 7 September 2016) which it owes Zimbabwe Electricity Transmission and Distribution Company (ZETDC) and if the company was to be closed by that time about 500 people would lose their jobs. For the industry to be viable and to avoid too much load shading the country has to import all the required power which is also a challenge due to lack of funds.

According to Mzumara (2012), the road network and rail network in Zimbabwe has deteriorated due to lack of maintenance and investment. The capacity utilisation in the railways has been going down in 2000 it was 53% and in 2009 had decreased to 15%. National railways needs massive investment to be viable, of its 168 locomotives only 55 are working and 37% of the wagons are working. It is also noted that Air Zimbabwe a state owned carrier of both passenger and cargo has only eight aircrafts. These include five Boeing with an average of more than 20 years which is beyond acceptable age of 15 years. Given an example of the pharmaceutical sector whereby South Africa require drugs from Zimbabwe to use air transport it becomes difficult for the country to export to neighbouring countries thereby becoming less competitive.(Ministry of Industry and Commerce Annual Report 2015)The transportation problems in the manufacturing sector cause delays in the delivering and supply of products

including the raw materials which are vital for the processes to commence and also given a scenario that some products are perishable they might even go bad before reaching the destination.

### **1.7.5 Obsolete Machinery**

Ageing equipment and machinery, according to CZI (2014), had affected capacity utilization in the manufacturing sector. Most of the companies are failing to replace the old machinery in their companies due to financial constraints. Also they are no major investments being done in terms of machines also due to the shortage of funds. Sanctions have caused Zimbabwe to have a negative emerge in the face of the international community and this has resulted in most companies failing to access foreign currency since 2000. The companies are also finding it difficult to access lines of credit because of the perceived risk in the country by investors. Most of the machinery which is needed in the manufacturing sector needed to be imported and it is becoming challenge in the face of these financial constraints. Most of the companies are continuing using outdated machinery since it difficult for them to acquire new machines. To make matters worse the machinery are expensive such that the companies needed much help from the foreign investors and most of them are still not convinced by the environment in Zimbabwe. ([www.rbz.co.zw](http://www.rbz.co.zw)).



### **1.7.6 Government policies**

A number of authors attribute government policies as posing major challenges to industrialisation in developing countries. According to Palma (2008) de-industrialization in developing countries could be associated with policy shifts in particular trade and financial liberalization. Lall (1992) states that, “inefficiencies and external shocks exacerbated by poor government policies, have led many industries to becoming a drag on their economies rather than engines of growth and structural transformation.” Russo and Linkon (2011) believe de-industrialization as the direct result of corporate and governmental decisions in America. Confederation of Zimbabwe Industries (2012) cites the indigenization and economic empowerment law in Zimbabwe as scaring away foreign investors which are key to any country’s industrialisation process. This policy framework just adds up to the injuries inflicted on the local industry by the fast track land reform Programme which collapsed the agriculture sector and in turn bleeding the agro-processing industries whose production capacities have since declined or closed. The Industrial Development Policy’s overall objectives were to restore the manufacturing sector’s contribution from 15% to 30% and the contribution to exports from 26% to 50% by 2015, to replace obsolete machinery. It can be seen that the objectives are very sound but they will only be achievable if all the right fundamentals are in place, it can also be noted the government is good in the crafting of policies but when it comes to implementation many problems are faced which includes shortages of funds, lack of commitment and corruption amongst others. (IDP 2012-2016).

### **1.7.7 Globalization**

Opening up to international trade when a country is not competitive may cause deindustrialization Kucera and Milberg (2003) attributed to deindustrialization in ten OCED countries between the late 1970s and 1990s primarily to globalization. According to Wood and July (2009) China's engagement with developing economies have disadvantaged them. The introduction of ESAP which liberalized trade caused the inflow of cheap imports in Zimbabwe from other countries. According to CZI (2015) Zimbabwe face a trade deficit due to imports from SADAC and COMESA. The manufacturing sector has been affected by the cheap influx of goods from the countries like China and South Africa. The majority people in Zimbabwe due to economic hardship had resorted to importation of goods thus from food staffs to clothing because the local good are expensive. According to Kanyenze (2006), following the introduction of ESAP which liberalized trade the textile subsector declined due to the influx of competing cheap imports. Also the introduction of Statutory Instrument number 64 of 2016 is an indication of competition from cheap imports.

### **1.7.8 Poor agriculture performance**

Zimbabwe's manufacturing industry is mainly agro-based. Most of the raw materials in the manufacturing sector come from the agriculture sector. Poor agriculture production had a negative impact on the manufacturing sector given most companies rely on agriculture products, for example, oil expressing companies currently are importing crude oil, the raw material used in the manufacturing of cooking oil which could have been processed locally through soya bean and cotton seed. According to CZI Business Intelligence Report (2016), the government has

declared a State of Disaster in the country because of drought due to El Niño. Climate change is one of the reasons Zimbabwe is experiencing low rainfall thereby contributing to drought in the country and slow growth in the economy. Most of the raw material in the manufacturing sector comes from the agriculture sector so the industries involved are also affected. (www.unido.org). Thus also according to (Iied 2012) changes in the climate have caused the country to have more dry lands for agriculture production and this has resulted in the shifting of Zimbabwe's five natural regions, the rain pattern is deteriorating from Region 1 to v. The climate in Zimbabwe is becoming warmer and warmer. It can be also noted that agriculture contributes approximately 60 percent of the raw material needed in the manufacturing sector. Some of the produce which are needed in the manufacturing sector are being affected by the climate change for instance in the average annual maize dropped from 1,64 million tonnes between 1993 and 2000 to 1,08 tonnes between 2001 and 2006. In 2007 the country needed to import about 55% to cover the shortage in the national requirements for cereals. Also there was a notable change in cattle population which approximately decreased from 6,1 million in 2000 to 5 million in 2011 whilst the dairy cattle dropped from 100 000 cows in 2000 to approximately 22 000 cows in 2010. From the figures above it can be seen the same products which are needed in the manufacturing sector are being affected by climate change and this will lead to a decrease in the level of the manufacturing sector. Though there is climate affecting the agriculture produce in Zimbabwe the Fast Track Land Reform Programme (FTLRP) after it was implemented there was a significant drop in agricultural and economic activity of the country. (Moyo 2000). According to Mutambara et al (2013) the fast land programme brought a change in the agriculture system whereby the smallholder farmers who were given land did not have much knowledge on how to farm for commercial bases as like the previous owners of the farms moreover that the farmers are

financially handicapped it worsened the situation. The poor Zimbabweans who have been extended the land are failing to produce large quantities and this is also affecting the manufacturing which needs the produce for the process of the products especially in the agro processing industries. The manufacturing sector which depends on the raw materials from the agro-based such as maize and soya will be in shortage of raw materials (CZI, 2016).

### **1.7.9 Low demand of goods.**

According to CZI (2015), in Zimbabwe there is low demand of products due to low incomes. The industry produces goods at high production cost resulting in high pricing of the local goods. The products are not competitive in the region and international since they are expensive, the majority are now resorting to imports. The industry is failing to export within and outside the region because the products are not competitive on the market. Also people are now made to believe that imported goods are better than the locally produced goods this being reinforced by the economic meltdown which was experienced in the previous years where shop shelves were almost empty. It's now difficult for the people to believe that local industry can manufacture some of the goods they are importing so people now have a culture of preferring products from other countries than locally produced goods. (Cotton to Clothing Strategy (2012-2019). This is evidenced by the removal of some goods on the Open General Import Licence when the Statutory instrument 64 of 2016 was gazetted for example water and maheu which are flooded in the market. People were used to imports such that in most cases would not want even to taste the local products. The local industry was suffering because it had lost its market to the products which are imported.

### **1.7.10 Market distortions**

Distortions on the market are regarded as one of the major constraints to industrial growth. World Bank and IMF (1997) stresses that industrial sector crisis are as a result of market distortions either prices are impeded from moving in a manner that reflects scarcity and choice because barriers exist that inhibit actors in the economy to responding in a rational manner, or the information flows from the markets are not reaching the appropriate agents (Stein, 1992). Price controls which took place in the years between 2006 and 2009 were making the operating environment for firms to be difficult considering that there was high inflation which would mean if the companies are forced to sell at a lower price when they want to purchase raw materials they will have insufficient funds. Thus according to Fiona (2001) pointed out that sometimes the price controls will transfer producers' profits to consumers

### **1.7.11 Production Costs**

The manufacturing sector in Zimbabwe is facing high production costs and these include high costs of power, labour, transportation by road due to the low coverage by rail infrastructure. It is also noted that the country has a power generating capacity of 1,100 MW against national demand of 2,200MW of which if the gap is to be closed the country has to import from Cabora Bassa mainly from Mozambique costs when they resort to the use of diesel generators in order to continue operating, the estimated cost of electricity from a diesel generator is estimated at around US\$0.23 per kilowatt –hour. (CZI, 2014) Also some costs are faced due to high cost of financing of raw materials which are used by the industry for example in the cooking oil sector they are importing crude oil as a raw material, in the textile some firms import inputs such as

dyed yarn from offshore because because the yarn varieties available locally are limited, in the fertilizer industry the raw materials for the manufacturing of Double D fertilizer imported and also Sable Chemical is currently importing Ammonia which is needed in the manufacturing of Ammonia Nitrate.(Ministry of Industry and Commerce Annual Report, 2015).

### **1.7.12 Compliance Requirements**

The companies in Zimbabwe are subject to a multitude of compliance requirements and this means a fee has to be paid. The local municipality requires factory licenses annually and also additional if there is a sales outlet and a canteen for staff, NSSA also requires an annual factory license, Environmental Management Agency requires quarterly licensing of each item of plant which makes emissions into the air. They are also tax payments which includes pay as you earn tax, value added tax and corporate tax. Audits are carried on all these tax. Companies are faced with a number of costs which need to be paid for them to operate if they fail to comply sometimes they are forced to close. (Cotton to Clothing Strategy 2014-2019). Portnex International which is involved in chrome production in Kwekwe was having problems with EMA due to the amount they were being charged for polluting the environment sometime in September 2016. (Ministry of Industry and Commerce Report, 2016).

### **1.7.13 Conclusion**

The chapter looked at the overview of deindustrialization in Zimbabwe outlining the performance within subsectors. The causes of deindustrialisation were also shown in the chapter

such as lack of foreign direct investment, shortage of funds, globalization, competition from imports and government policies amongst others.

## Chapter 2

### THE EFFECTS OF DE-INDUSTRIALISATION

#### 2.1 Introduction

Research on effects of de-industrialisation tends to view it from two distinct perspectives. By some accounts, de-industrialisation is viewed as a necessary, and even beneficial, feature of modern capitalism. The opposing view is that de-industrialisation is cause for concern because of its potential for negative effects on workers and communities. The loss of well-paying jobs associated with plant closures, layoffs, and the transfer of operations has been cited as a cause of numerous social and economic problems, including unemployment and underemployment, growth in income inequality, community decay, and crime. This chapter is going to take a closer look at the effects of de-industrialisation.

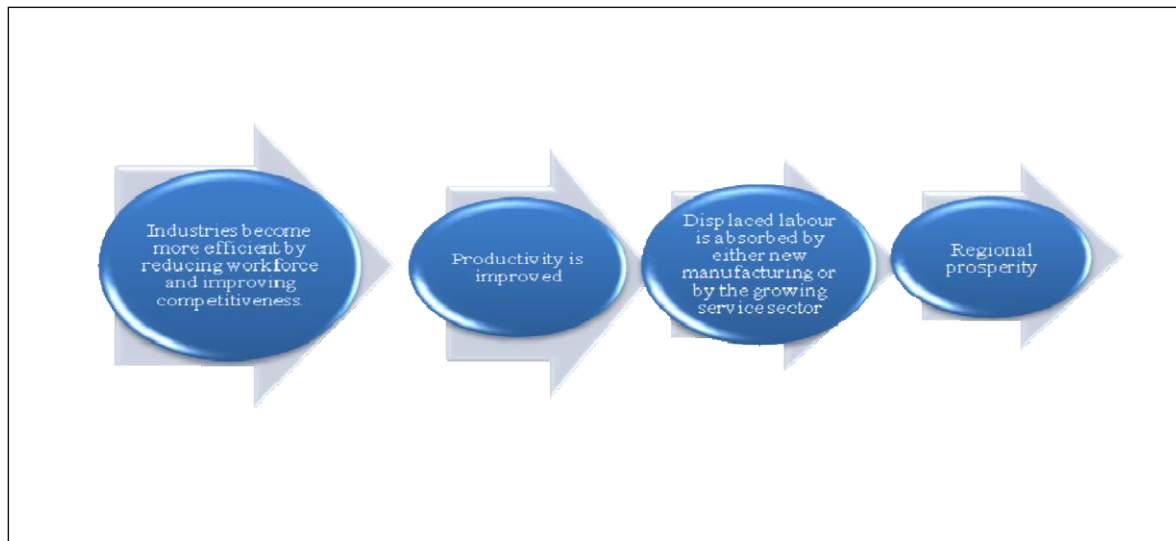
Warn (1998) listed a number of negative and positive effects as shown in figure 3.1 and figure 3.2 below, respectively.

**Figure 2.1 Negative Effects of the de-industrialization Process**





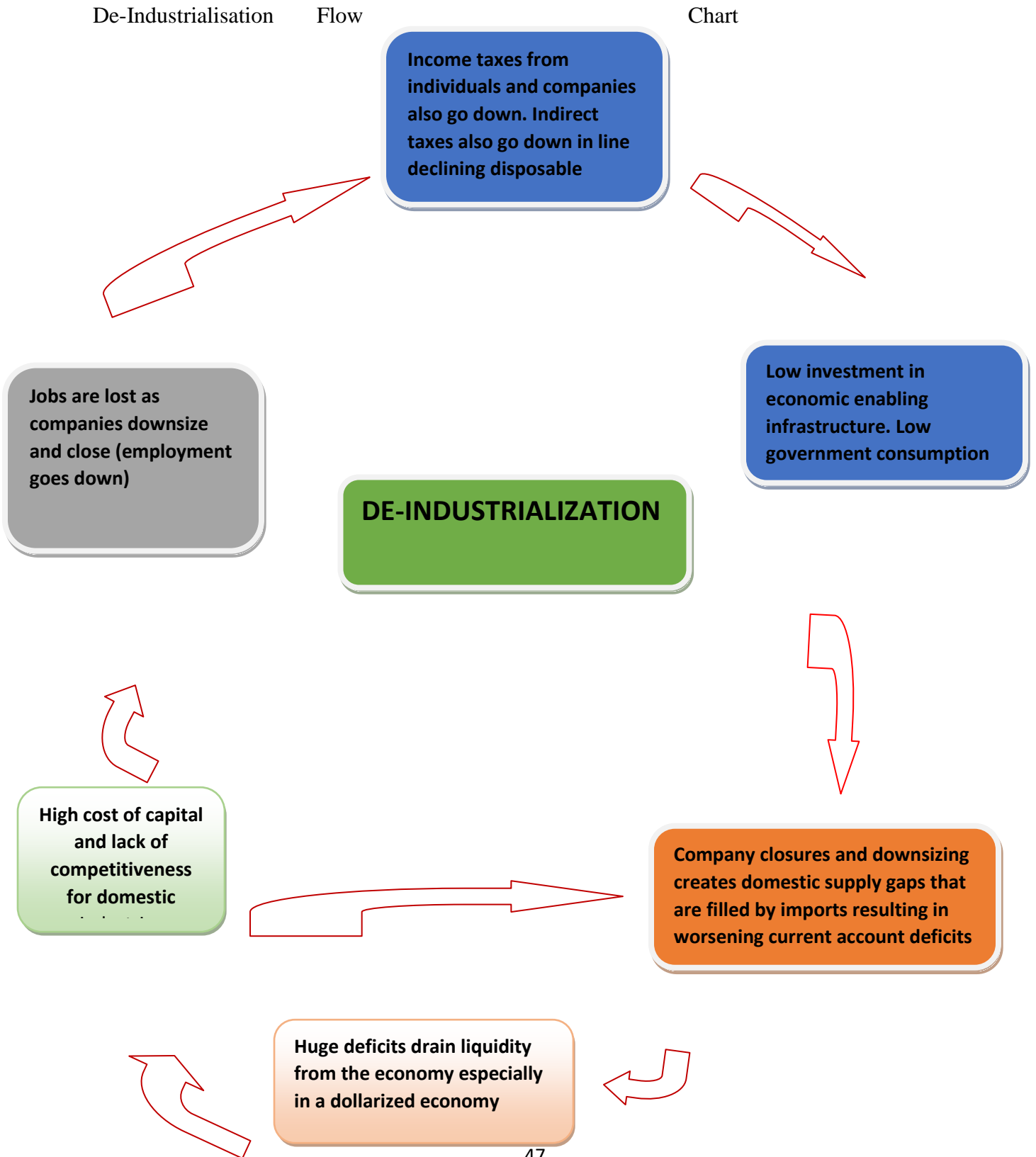
**Figure 2.2 Positive effects of the deindustrialization Process**



Source: Warn 1998

RBZ (2016) provided a list of effects of deindustrialization in Zimbabwe ranging from a vicious cycle of low investments, company closures, illiquidity, high cost of capital, job losses and reduced government revenues. Figure 3.3 below depicts a flow chart of the effects of deindustrialization in Zimbabwe.

**Figure 2.3: Effects of deindustrialization in Zimbabwe.**



## **2.2 Effects of deindustrialisation in Zimbabwe**

### **2.2.1 Employment Rate**

Due to deindustrialisation there has been a decline in the employment rate in the manufacturing sector in Zimbabwe. Kuncoro (2007) argues that deindustrialisation is a decrease in the role of the industry in the economy as a whole. This can be seen from the decrease in the number of workers, number of products in the industry and the role of the manufacturing sector compared to other industries. Deindustrialisation in Zimbabwe has caused many people to move into the informal sector setting up small businesses and also emergency of many vendors especially in the cities. The number of people being employed in manufacturing is decreasing since some of the companies are closing and others don't have the capacity to have many workers due to a number of challenges they are facing. According to Nkululeko (2014) unemployment in most cities has been exacerbated by deindustrialisation, in Zimbabwe it has been known that the manufacturing sector employs a large number of people and also plays a strategic role to the economic development of the country. According to ZCTU (2000) the manufacturing sector in 1980 was contributing almost 25% to Gross Domestic Product (GDP) as well as 18% to employment this shows that a lot of people were employed in this sector. The trend for employment in the manufacturing sector is moving downwards since 1980 as shown in the graph below:

**Figure 2.4 Employment trend in the manufacturing sector**



**Source: ZimStat 2016**

As a result of a number of economic bottlenecks which include cheap imports, obsolete equipment, low aggregate demand a number of companies are closing and some are being put under judicial management. According to Master of high court 2015 about 60 companies were put under judicial management in 2014 whilst 87 were liquidated the same year. The figures of the companies under judicial management, liquidation and those distressed are shown in the table 2.1 below.

**Table 2.1 Companies under judicial management, liquidation and distress**

<b>Year</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Companies under judicial management	20	27	51	60
Liquidation	22	48	44	87
Distressed companies	48	94	114	128

Due to the fact that some companies are put under judiciary and also facing liquidation it automatically mean that many employees are losing their jobs and some are being retrenched. Also a number of companies are failing to pay their workers on a regular basis accumulating in arrears this is seen in companies like ZISCO and CAPS and these companies stills owes their employees (Ministry of Industry and Commerce 2015). Extensive job losses is being seen in the formal sector thus according to the Retrenchment Board (2014) between 2011 and 2014 a total of 13 647 workers were retrenched in all the sectors of the economy. According to Lawrence (2004) Detroit, Michigan is an example of a U.S. city that has undergone rapid de-industrialization. Detroit was once known for automobile manufacturing and was associated with comfortable, middle-class living. After automobile manufacturing was largely moved overseas, Detroit has come to be known for urban decay and an abandoned city centre and many people lost their jobs in the city.

Clark (1950) published tabulations of the 1881 and 1911 census of India showing that the share of the Indian workforce in manufacturing, mining, and construction declined from 28.4 to 12.4 percent from 1881 to 1911, implying dramatic de-industrialization in the late 19th century. In study reported by Habib (1985) stated that India suffered much more pronounced de-industrialization than the rest of the periphery. According to Habib the phenomenon was explained by conditions faced by India and not by the rest of the periphery. Although de-industrialization is often thought of as a trend of the 1970s and 80s and its history dates back to the early 20th century, it is not merely history. Jobs lost in the late 1970s continue to affect communities and individuals today

In another case study of the de-industrialization of Great Britain between 1966 and 1988 most regions experienced 40% job losses in the manufacturing sector, with East Anglia being the only region experiencing an overall gain in manufacturing employment.

Linkon and Russo (2002) stated that in 1950, Youngstown was one of the largest U.S. steel producers. In 1931, it had the fifth highest rate of home ownership in the US, and Youngstown lost approximately 29,000 manufacturing jobs. In 2006, Youngstown was ranked as the poorest midsize city in America and in March 2010, the unemployment rate stood at 14%. Russo pointed out that the de-industrialization of Youngstown was chiefly as a result of growing imports of manufacturing goods relative to exports of manufactured goods.

Linkon and Russo (2002) indicate that in the 1880s, Burnley was one of the world's largest cotton producers. In 1950, manufacturing employed 59.3% of the town's working-age population, by 2003 this figure was 26.2% and 18.7% by 2008. Between 1998 and 2008, Burnley lost 5,700 (48%) manufacturing jobs. Linkon and Russo stated that in 2007 Burnley ranked as

the 21st most deprived district nationally, and in 2008, just 67% of working-age population was employed.

### **2.2.2 Low capacity utilisation**

As a result of deindustrialisation Zimbabwe’s manufacturing sector is struggling and this is evidenced by companies operating below full capacity utilisation. Capacity utilisation is the percentage of the firm’s total production that is actually being used. It also refers to the relationship between actual output that is actually produced with installed equipment and the potential output which could be produced if capacity was fully used. According to CZI (2015), deindustrialisation has caused depressed domestic demand due to increase in unemployment and fall in savings. Hence firms streamline their production output to avoid stock piling. Table 3.2 below shows average capacity utilization in subsectors of the manufacturing sector.

**Table 2.2 Average Capacity utilisation levels in the manufacturing sub-sectors**

Manufacturing sub-sector	Average capacity utilisation (%)
Bakers	40
Battery	76.5
Food dairy and beverages	58.2
Car assemblers	30.3
Electric appliances manufactures	43.8

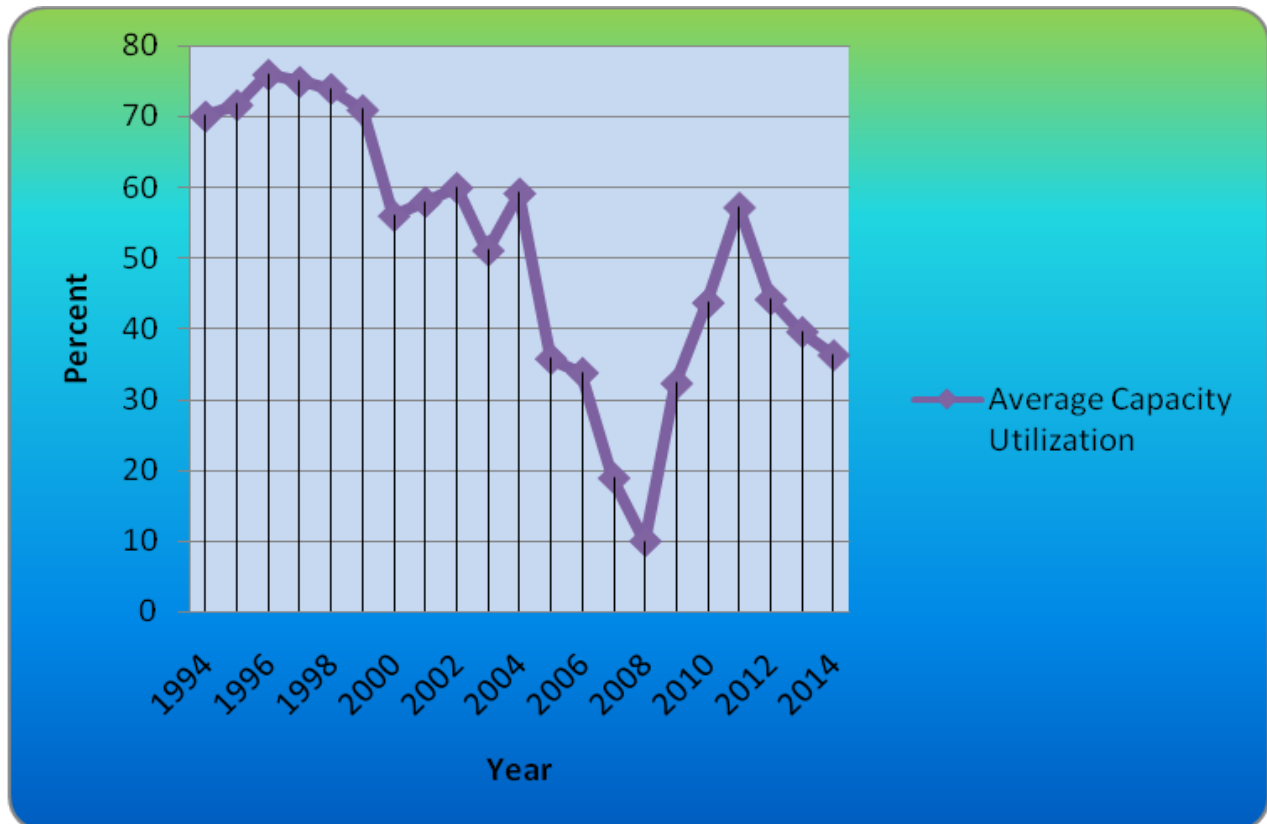
Engineering iron and steel	36.7
Chemical	41.6
Pharmaceuticals	58.0
Plastic paper and packaging	46.1
Textile and clothing	34.4
Timber processors	53.8

Source: 2012 Report- The annual CZI Manufacturing Sector Survey.

Data on average capacity utilisation for the manufacturing sector over the years from 1994 – 2014 shows an overall downward trend from 70% to 35% (CZI, 2014). Figure 3.4 shows the average capacity utilisation levels from 1994 to 2014.



**Figure 3.5 Average Capacity Utilisation for manufacturing sector.**



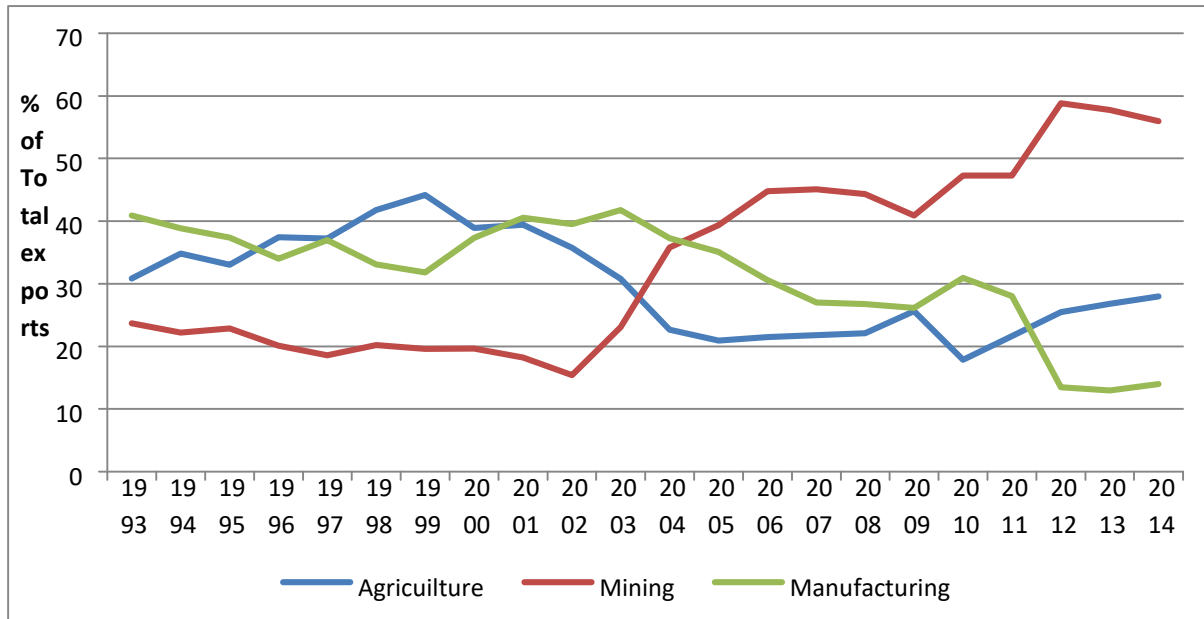
**Source: 2014 CZI Survey**

From the graph it can be seen that the capacity utilisation increased as from 2008 up to 2011 this can be explained with the coming of US dollar to the economy and the Government of National Unit in Zimbabwe, the investors were now having confidence in the business environment. The trend is now decreasing due to many factors like cheap imports from neighbouring countries such as South, Botswana and as far as East from countries like China and the depreciation of the rand in South Africa thereby taking advantage of Zimbabwe by exporting their products.

### **2.2.3 Decline in Exports and increased imports**

Zimbabwe is facing challenges in the manufacturing sector to the extent that it is now exporting less finished products compared to other countries due to deindustrialisation. The cost of producing finished goods in Zimbabwe is very high due to many constraints like obsolete machinery, high utility charges and low foreign direct investment amongst others. According to Saungwemi (2013), Zimbabwe's major exports in 2012 were mainly primary commodities or semi-processed products and this has resulted in low export returns, export of jobs and high import bill on manufactured goods. The economy has moved from self-sufficient economy as it was in the 1990s to an import dependant country. Imports in the 1990s were mainly industrial products such as industrial machines. The graph below shows a trend in the exports of manufactured goods of Zimbabwe:

**Figure 2.5 Evolution of Composition of Zimbabwe's Exports**



**Source: Reserve Bank of Zimbabwe**

From the graph above it can be seen that exports from the manufacturing are declining due to deindustrialization in Zimbabwe. The companies which used to manufacture the products are closing or they are producing low quantities due to high cost of production. Many products in Zimbabwe currently are no longer competitive on the international markets because the prices for products in Zimbabwe are marked high due to many factors like high utility charges, rentals and the technology which is being used.

In the USA, according to Bluestone and Harrison (1982), in 1947, the industries in the United States of America used to dominate in the world supplying

manufactured goods. In the 1980s the exports declined due to deindustrialisation. Table 3.3 below depicts a decline in the world share of USA exports in selected sectors.

Table 3.3 USA Share of world exports before and after deindustrialisation

Before Deindustrialisation the industry accounted for:	After Deindustrialisation the industry accounted for :
80 % of the world 's manufactured goods	13 % of the world's manufactured goods
57 % of the world's steel production	Less than 10% of the World's steel production
62% of the world's oil production	Less than 6% of the world's oil production
Dominated aviation, chemical, electronics, rubber and plastics	10 % of the high tech manufactured goods
US worker earned fifteen times what a foreign would earn	

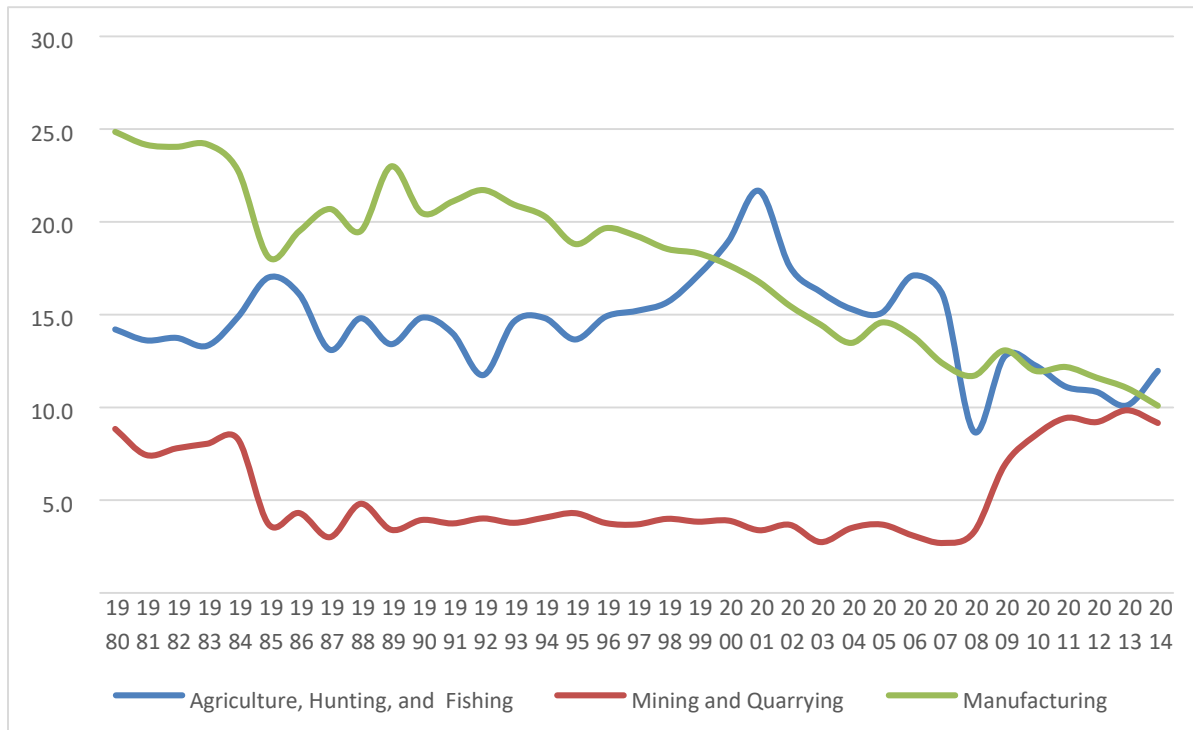
According to Ministry of Industry Retail Survey Report (2016), which is the report of the survey carried out in major cities in Zimbabwe, that is, Bulawayo, Harare, Gweru, Masvingo and Mutare, in major retailers and wholesalers such as OK, Pick 'n' Pay, Food World and Spar, Muhammed Musa, Badhella, Metropeech, Choppies and N. Richards in the first quarter of the year 2016, the imported goods occupied 65% while locally produced goods occupied 35 % of the shelve space. This gave an indication that imports were more than exports in most basic commodities. Companies and individuals have resorted to the importation of cheap products for consumption or selling in their outlets mainly from South Africa. The introduction of Statutory

Instrument of 64 of 2016 is a deliberate measure by Government to reverse this trend on products that can be produced locally. Most of the people had resorted to importation of products since they would find many varieties with affordable prices especially with depreciation of South African Rand. The same scenario happened in India when it lost its significant share of world textiles markets to Britain. Textile used to be an important export sector in it became the important importing sector at the end since British yarn and cloth took away India's local market from her own producers (William, 2004).

#### **2.2.4 Low contribution to GDP**

The manufacturing sector used to contribute much to the Gross domestic Production in Zimbabwe, between 1980 and 1990 the sector contributed about 22%. The contribution however declined from 22% to an estimated 10% in 2014. The contribution of the manufacturing sector to the GDP is continuing to decline due to the failing industry. The manufacturing sector used to provide most of the goods locally but currently most of the finished goods are being imported. (RBZ Working Paper 2015). The graph below shows the trends in sectorial contributions to GDP

**Figure 2.6 Sectorial Contribution to GDP from 1980 -2014**



Source: ZIMSTAT, Ministry of Finance, RBZ

### 2.2.5 Brain drain

Zimbabwe has experienced brain drain due to deindustrialisation most of the people are leaving out the country in search for greener pastures. After finishing school the graduates are finding it difficult to get employment and this has resulted in the migration of most of the people. According to Chimanikire (2005), most of the working ages in Zimbabwe are leaving the country to countries like United States of America, South Africa and Botswana in search for jobs. One of the reasons which is given for migration is the contraction of formal employment

owing to companies' downsizing, reducing working periods and low salaries. The employment levels in Zimbabwe have fallen due to deindustrialisation. Brain drain affects the growth of the economy since most of the skilled labour will leave the country looking for greener pastures and this will affect the performance at the firms since the country will not have shortage of experts.

### **2.2.6 Rise of the informal sector**

Due to deindustrialisation in Zimbabwe there has been rise in the informal sector, many companies have closed thereby a lot of people are not formally employed. People are now running small businesses; they are now many vendors in the street and cross borders. According to Njaya (2015), the informal sectors ranges from street vending, shoe shining, food processing and car are washing amongst others. Most of these activities in this informal sector are not registered meaning that they will not pay a tax which is needed for the economic growth of the country. If the businesses are registered they pay institutional taxation whilst employees also pay taxes.

### **2.2.7 Increase in urban to rural migration of people**

People are migrating from urban to rural areas because of hardships being faced in the urban areas because the cost of living is very high. In the urban areas people need rentals, payment of utilities, buying food whereas some of these things they get them freely in the rural areas. Due to closure of companies it is now difficult to earn a living in urban area given the expenses which are faced. According to National Census Report (2002), 65% of the people lived in the rural

areas whilst 35 lived in urban areas. In 2012, according to the National Census Report (2012), the population in the rural areas increased to 67% whilst the population in the urban areas decreased to 33%. The increase of people living in the rural areas might have been attributed by deindustrialisation since most of the people are being retrenched and also a number of companies are shutting down. According to Popescu (2014) there was shrinkage of cities in Romania since the population in cities reduced by 2, 8 million from where it was in 1992 according to the census which was held in 2011. The urban to rural migration triggered urban depopulation at various towns due to deindustrialisation. The people lost their jobs so they find it difficult to cope up with life in the cities.

### **2.2.8 Social costs**

According to Lumun (2014), the closing of plants lead to substantial unemployment in communities thereby causing people to lose of spending power. He also pointed out that unemployment as a result of deindustrialization causes social problems like prostitution, poverty, crime, alcoholism, drug abuse and child trafficking amongst others. According to Dodo (2012), due to closure of many companies and scarcity of jobs there was more human trafficking in Zimbabwe especially the period of 2006 to 2008. People decided to live the countries due to economic hardships hoping for the better outside the country. Many people did not have choice than to leave the country and got employed as housemaids, shopkeepers and even working in fields especially in countries like South Africa and Botswana .Of recent Zimbabwean women have become targets for human trafficking especially to Kuwait. (zbc.co.zw)



### **2.2.9 Crime**

The most negative impact, especially for the families, is the emerging psychological and behavioral problems, affecting the family and community life (Ersoy et al., 2000; Perrucci et al., 1988). Behaviours like alcoholism, suicides, and illegal actions ratio can increase in this period of unemployment (Ersoy et al., 2000; Torres, 1991) with all these impacts on social life and structure, de-industrialization cause a domino effect beginning from the fired worker to the whole region, with its interrelations. Crime increases in de-industrialized communities for several reasons and over a long period of time. While some crime occurs as laid off workers run out of money and options, and decreased police presence contributes to the problem, crime is a long-term problem for such communities. Criminologists have found that street crimes increase as unemployment spreads, but after a lag period, more serious criminality can develop (Heathcoat, 2003). In Zimbabwe it is indicated that there is an increase in crime rate as a result of hardships which are being faced with the people. The companies are closing and if an economy can not give jobs people resort to other means so that they can survive. Even the kind of robberies which are being experienced shows that there is some intelligence meaning these are educated people who are not employed. ([www.theindependent.co.z](http://www.theindependent.co.z).)

### **2.2.10 Poverty and Poor Health**

Warren (1978) pointed out that to be laid off meant worse mental health more somatic complaints, more depression, and higher anxiety. A critical finding from Warren was that the effects of anticipating layoff and especially of being laid off depended on one's race, one's education, and one's income. For the low income, the less educated, and especially the less

educated black worker, the mental health impact of layoff was profound. Job loss has been found to contribute to a deterioration of mental health. Renner and Navarro (1989) in their recent analysis of the growing population of under-insured and un-insured in the United States explain that the de-industrialization and shift of employment to the services have enormous implications for the health benefits coverage of the populations affected. Brenner and Levi (1987) found out that displaced workers suffer anxiety, paranoia and hostility.

Bensman and Lynch (1988), in their study on the effect of a steel plant closure in southeast Chicago on displaced workers, present an enlightening perspective describing that workers are faced with reduced health care access and health status deterioration after the plant shutdown.

In Zimbabwe according to UN (2010) the causes of poverty in the country have been linked to the poor economic growth and limited job opportunities which has since occurred in 1980. Dodo (2010) said that even those who are lucky to be employed their salaries are not high and mostly its US\$480 per month. It can be noted that people are living below standards because of these low remuneration such that they cannot afford even some of the basic things which are needed in life. Most of the people are being stressed due to the hardships which are being faced.

### **2.3 Conclusion**

Deindustrialization has been a major concern in developing countries due to its negative effects emanating from company closures and job cuts. In advanced economies, deindustrialization in the manufacturing sector is viewed as natural and a sign of economic maturity where productivity in the manufacturing sector would have risen higher than in the service industry and an economy is now moving towards the service industry.

## **Chapter 3**

### **Strategies being implemented to prevent deindustrialisation**

#### **3.1 Introduction**

Zimbabwe has been facing deindustrialisation since 1980 and they are measures which are being carried out in the country to curb deindustrialisation. SADAC as a region is also having strategies to industrialise the region. Some of the goals which the region is looking at are to lift the regional growth rate of real GDP from 4 percent annually to a minimum of 7 percent a year, to increase manufactured exports to at least 50% of total exports by 2030 from less than 20% at present, to build market share in the global market for the export of intermediate goods to East Asian African level of around 60% of total manufactured exports and to increase the share of employment to 40% of total employment by 2030. The strategies which the SADAC is looking at are strengthening small and medium enterprises, enhancing competitiveness, public private partnerships and value chain development. (SADAC 2015-2063). Zimbabwe is also looking to restore the manufacturing sector's contribution to gross domestic product (GDP) from 15 % to 30% and contribution to exports from 26 % to 50%. (IDP 2012- 2016) Some of the strategies which are being enforced Zimbabwe are as follows:

#### **3.2 Strategies**

##### **3.2.1 Import Substitution**

Import substitution refers to a policy that eliminates the importation of the commodities and calls for production in the domestic market. The objective of the policy is to bring about structural

changes in the economy (Bruton 1970). If the imports are high than the exports there will be trade deficit and the adoption of this policy will make an economy to be self-reliant and independent thereby accelerating growth. (Schmitz 1984). Mostly at the beginning of import substitution process the consumer goods are controlled from foreign imports since the demand for consumer goods is assured due to the growing population whilst that for capital goods and intermediate goods would be there as the development process is set in motion. Countries adopt different instruments to enforce import substitution which are as follows :credit incentives which can include subsidies through allowing the banking system to finance import substitution industries at low interest rates, Argentina used the special incentives to encourage particular industries such as oil, steel, chemical and motor vehicles, the tariffs of consumer items also might be set high like what Pakistan did, duties on the raw materials and capital goods might also be set low than the finished goods and also tariffs on finished consumer goods for which substitutes are produced locally will be set high and lower for those which have no substitutes. It can be noted that India's experience of import substitution accounted for 23% of output growth from 1950 to 1966. (Somboon 1998) Thailand adopted the import substitution strategy in the first five year plan in the 1960s and started with import primary import substituting industry; by 1980 manufacturing sectors became the largest contributors to the economy. The Thailand government encouraged import substitution to reduce Thailand's dependence on imports of foreign goods, raise the income through the increasing the value added products and to save foreign exchange expenditure. According to Mzumara (2012) Zimbabwe used import substitution as a strategy for industrialisation before and after independence. It is noted even when the country was under sanctions during the Smith Regime could stand for a long time because of import substitution. The import substitution aims to encourage local manufacturing of

products. The government have responded to the complains of the manufacturing industry of being suffocated by cheap imports by introducing protective measures against imports. The government gazetted Statutory Instruments (SI) by removing some products on Open General Import Licence (OGIL) and these measures are SI 6 and 126 of 2014, SI 18,19,20 and 64 of 2016. Some of the products include sugar, milk, plastics, second hand clothes, candles, biscuits and cement amongst others. Import substitution will help manufactures in the value chain for example plastic manufactures are benefiting since they manufacture products which are used for packaging and also other players in the value chain includes suppliers of cartons, printed labels and pallets. Also import substitution in Zimbabwe will help in minimizing the deindustrialisation since there will be employment creation, increase in capacity utilisation and also production costs will be reduced. There are improvements which have been noted in the cooking oil sector brought by the import substitution., There has been an increase from 6 000 litres to 20 000 litres of cooking oil per year and major investments are being done in the sector and this means there is creation of jobs due to the increase in production. (CZI Report 2016). An interview with the Ministry of Industry and Commerce indicated that they are implementing import substitution for example through licensing of products, reviewing up of import tariff import. It was shown that import permits are being issued where there are gaps that is to say when the local industry cannot meet the demand in the country and example of these products were given as washing powder, plastic packaging, shoe polish and conveyor belts and where there is no gap no product is allowed to be imported and example of these products are sugar, cooking oil and biscuits.

### **3.2.2 Export-Oriented**

According to Inotai (2013) export oriented growth strategies started back in the 1950s and 1960s and the pioneers being the Federal Republic of Western Germany and Japan, then between 1970 and 1984 four small East Asian economies also adopted the export orientation thus Republic of Korea, Hong Kong, Singapore and Taiwan. The best example of the success of export oriented growth strategy has been experienced by China in the last two decade in 2009 China became the largest exporter to the world ahead of Germany. The theory of export led growth is based on the studies on absolute and comparative advantage developed by in the 19<sup>th</sup> century by Ricardo and Smith. The export led growth pattern generated high growth rates, created new jobs, led to higher labour productivity, introduced new organization and managerial methods of production, ensured relevant inflows of capital and technology, increased exports revenues and turned traditional trade deficit into surplus and these contributed to the financial stability of the country.

Kusago (1998) stated that the building of export processing zones in a country is meant to push for an export- oriented industrialization. According to Madani (1999), there were four primary goals and characteristics for establishing export-processing zones. These were:

- To provide foreign exchange earnings through promotion of non-traditional exports;
- To provide jobs in order to alleviate unemployment or under-employment problems in the host country and to assist in income creation;
- To attract foreign direct investment (FDI) to the host country; and
- To provide a venue for technological transfer, knowledge spill over and demonstration effects, which could act as catalysts for domestic entrepreneurs to engage in the production of non-traditional products.

Zimbabwe has joined a number regional blocs such as SADC and COMESA and international blocs such as WTO in order to benefit from a larger market for its industries' products. (National Trade Policy 2012-2016) The country is finding it difficult to export since they are operating under capacity utilisation and also if the products are produced for the export market they will be expensive to compete on the international market. Some of the companies have to reduce their selling prices if exporting so that the product will gain market example of this is cement which had to reduce the price for the export market (Ministry of Industry and Commerce 2015).

### 3.2.3 Small and medium Enterprises.

According to OCED (2004) the idea of the small and medium enterprise was introduced as early as late 1940s and recent empirical studies show that small and medium enterprises contributed over 55% to gross domestic produces and covers over about 65% of total employment in high income countries. It is also noted that that small and medium enterprises are also an important source of export revenue in some developing economies. The table below shows percentage of exports in selected East Asia, African developing economies and OECD countries.

<b>Country</b>	<b>Years</b>	<b>Percentage of SMEs exports</b>
China	Early 1990s	60
Korea	1995	42,4
Vietnam	Early 1990	20

Malaysia	Early 1990	15
Tanzania	2002	<1.0
Malawi	2003	<1,0
OECD Countries		
Denmark	Early 1990s	46
France	1994	28,6
Sweden	Early 1990s	24,1
Finland	1991	23,3
Japan	1991	13,3

According to Rostow (1960) the history of economic development shows that promotion of infant industries is one of the major drivers behind the success of industrialisation in Europe. Also Balassa (1982) noted that small and medium enterprises are needed as a starting point for the development of large companies and in countries such as China and India they have led to the expansion in employment creation and poverty reduction.

Kazem and Van der Heijen 2006 argue that promoting small and medium enterprises has been described as one of the best strategies for achieving national development goals such as economic and industrial growth. Palma (2005) stated that SMEs are important to almost all economies in the world, but especially to those in developing countries and, within that broad category, especially to those with major employment and income distribution challenges. Small



and medium enterprises have various definitions which are basically centred on the volume of turnover and number of people employed and normally they employ between 10 and 100 people.

The reasons for establishing the small and medium enterprises are given as follows:

- Enable better use of existing local capacity.
- They are more labour intensive thus creating more employment
- They make the country to be self-reliant
- Easy to start since they require low investment
- They focus on small markets
- They attract investors to invest in the country
- They are necessary for the structural change of a country's economy from agricultural dependent to industrial oriented economy (Elumba J and Nkongolo)

Zimbabwe is promoting small and medium enterprise through the creation of the small and medium enterprise revolving fund being administered by the Ministry of Small and Medium Enterprise through the Small and Medium Enterprise Development Corporation and this is being implemented by various banks which includes Infrastructure Development Bank of Zimbabwe providing a facility of 30 US\$ Million and the US\$ 10 million localised empowerment Accelerated fund being managed by three banks which includes Commercial Bank of Zimbabwe (CBZ), POSB and CABS. (Midterm Fiscal Policy 2016). An interview with the Ministry of Small and Medium Enterprise indicated that most of the small and medium enterprises are finding it difficult to access funds from these banks since most of them don't have collateral which needed by the banks. It was also shown that if they need more than US\$2 000 the

collateral will be needed meaning that they are getting little money for their operation due to the collateral issue.

### **3.2.4 Technological Advancement**

Bluestone (1982) suggests that, "technologically driven productivity is a double edged sword, and points out the fact that for any firm to boost capacity and grow, it has to move in line with technological advancements. Thus also according Lavop (2013 )technological process were important in the first industrial revolution in the 18<sup>th</sup> century, also for second revolutionary for the industrialisation of Continental Europe and USA in the 19<sup>th</sup> century and for the third revolution thus for industrialization of Japan and the East African in the 20<sup>th</sup> century. It can be seen that technology accelerated industrialisation in these different countries. Also McArthur and Sachs, noted that Solow in 1956 found out that technological change accounted for seven-eighths of the growth of the U.S economy and this empirical assessment supported the theoretical suggestion of his model that technological advancement has been the key long term driver of economic development. An example given is when Joseph Stalin in Soviet Union promoted forced saving but little change was done to technology thereby resulting in slow growth. This satisfied Solow's model that capital accumulation without technological growth lead to slow economic growth. The government of Zimbabwe industry is supporting the buying of new machinery by the manufacturing sector. An interview with the Ministry of Finance and Economic Development showed that manufacturing companies are being given incentives on equipment by deferring the value added tax for the capital equipment. The whole amount will be

paid within ninety days from the date of deferment, here the government is lessening the burden on the companies which might not have the whole amount in short space of time.

### **3.2.5 Infrastructure Enhancement**

World Bank (1994) high light that infrastructure development is important and noted that there is a close relationship between infrastructure development and economic growth. Also according (Byoungki 2008) infrastructure is important for the attainment of industrialization and trade promotion and also for lowering production cost as well as raising productivity. It can be noted that Korea which invested more in the power stations, highways, communication facilities , the share of industry to gross domestic product increased with about 10% during the 1960s and 1970s, and by 1980 it reached 41,3%. He also noted that the rebuilding of economic infrastructure by Europe under the aid from the U.S and World Bank helped Japan through the power revolution. The electricity development complemented labour intensive manufacturing industries and also light industries shifted from import substitution to export orientation. For industrialization to take place in Zimbabwe the Government is looking for other sources of energy to supplement the power supply by ZESA for example solar and also its upgrading its electricity generation at Hwange Power Station and Kariba Power Station (IDP 2012-2016). According to Chakanyuka, Harmon and Makochekanwa (2014) the National Railways of Zimbabwe needs improvements in its operations since it offers least costs as compared to road and air transport. The rail transport has deteriorated since it is not regularly maintained and also some of the parts are being stolen by thieves. The rail transport is essential for bulk and movement of goods since it is cheaper. Zimbabwe has now embraced the concept of private

partnerships in infrastructure development. The National Report on the status of implementation of Almaty Programme of Action it is indicated that Zimbabwe has now embraced the concept of Public Private Partnerships (PPP) projects and these includes the rehabilitation of highway linking Plumtree, Bulawayo, Harare and Mutare through a joint venture between Zimbabwe National Road Administration (ZINARA) and Group Five International of South Africa with funding from Development Bank of Southern Africa (DBSA). The possible solution for Zimbabwe to develop the infrastructure is to continue engage public – private partnerships since the country is lacking shortage of funds in the infrastructure development.

### **3.2.6 Foreign Direct Investment**

Anderson and Leo (2006) points out that there is need to attract investments and developers as a strategy of developing an economy and reverse deindustrialisation. Also Nunnenkame (2002) indicated that FDI offers access to internationally available technology and management know-how and Unctad ( 1999) concurs by highlighting that foreign direct investment is important for economic development by providing financial service and export links. Countries in the South East Asia which consist of Malaysia, Indonesia, Singapore and Hong Kong experienced significant economic growth due to foreign direct investment. (Nunnenkame 2002). Zimbabwe has signed with over forty countries worldwide, under Bilateral Trade Agreements, amongst the countries they are those in the region and also neighbouring countries which includes South Africa, Botswana, Malawi, Namibia and Democratic Republic of Congo amongst others. The government have also signed deals with China, Belarus and Russia. Through the signing of these Bilateral Trade Agreements (BTA) the country is aiming to attract foreign direct investment.

(Ministry of Industry and Commerce, 2016). The indigenization policy which states that 51% percent should be owned by local people and 49% can be acquired by the foreigners in company set up is now flexible since the line Ministries now are included , The Ministry of Industry and Commerce indicated that they are now processing these investment issues whereby the investors in the manufacturing when they apply to invest in the country it is not only about the shareholding structure which is being looked at , the benefits the country can benefit like training the local people, building of infrastructure and technology amongst others are being considered for the country to operate in the country thus not only emphasizing on shareholding only This will attracts foreign direct investment since some of the requirements the companies are comfortable with them instead of only acquiring 49% and the Ministry of Industry and Commerce is approving some of the investments . The table below shows Investments which were approved by the Ministry of Industry and Commerce under Indigenization and Economic Empowerment Act by December 2015.

**Table 3.1: Projects Investments**

<b>Company</b>	<b>Value of Investment</b>
Blue Ribbon/ Bhakresa	US\$40 million
Anchor Yeast	US\$8.4 million
Metro Peach and Browne	US\$3 million
Polyoak Packaging	US\$3,2 million
Willowton Group Zimbabwe	US\$40 million

Sparkle Beverages	US\$691 600 million
Pottery bricks	US\$807 000 million
China Africa Agricultural	US\$204,15 million
Golden glow	US\$820 000million
Earth Packs and Preforms	US\$6 million
Parts and Panel Zimbabwe	US\$500 000

(Ministry of Industry and Commerce 2015)

### 3.2.7 Special Economic Zones

Special Economic Zones (SEZs) or industrial parks can be an effective way to promote industrialization as witnessed by some other countries especially those in Asia. Special Economic zones include a wide range of zones and these are free trade zones, export process zones, industrial parks, economic and technology development zones and enterprise zones. Special Economic Zones have specific characteristics which include a geographically delimited area, single administration, offer benefits for investors and have separate customs area and streamlined zones. Most countries are now implementing the SEZs for industrialization process especially as way of attracting foreign direct investment, to create employment, infrastructure development and facilitating cluster development for certain industries. China is said to be the most successful country in the implementation of the special economic zones and it is noted that these have contributed significantly to national gross domestic product, employment, exports ,

attracting foreign direct investment , brought new technologies and also China adopted new techniques which are more advanced. The success stories for special economic zones in Africa are in Mauritius, Kenya, Lesotho and Madagascar. In Zimbabwe plans are underway for special economic zones the bill on the SEZs is looking forward to be implemented and debated in parliament in 2017. The following places are designated as special economic zones in Zimbabwe

-Sunway City Intergrated Industrial Park in Harare.

-Leather and textiles (Bulawayo)

-Finance (Victoria Falls)

-Tourism (corridor stretching from Victoria Falls to Hwange to Binga and to Kariba)

-Diamond cutting and polishing (Harare and Mutare) (Ministry of Industry and Commerce, 2016).

### **3.2.8 Access to credit**

Claessons (2005) defined access to credit from three perspective, first is that whether financial services are there in the right quantities, secondly whether the credit is available at the right prices thus including all costs which might be the cost of waiting in queues and travelling long distances to the bank and thirdly can be defined based on the range, type and quality of financial service being offered and these includes reliability, convenience, continuity and flexibility. According to (Kitson and Michie, 1996) there is need for a financial service sector that supports the manufacturing sector to improve its functions. An interview with the Ministry of Industry and Commerce indicated that industries in Zimbabwe were facing financial problems and high

interest rates for the loans approximately 25% per month. This led the government to introduce the Zimbabwe Economic Trade Revival Facility (ZETREF) which is a facility jointly funded by the government and the African Export Import Bank and set up the Distressed Industries and Marginalised Areas Fund (DIMAF). The funds are for the industries to recapitalize, replace outdated equipment so that they can competitively re-enter the market and also create employment. The interest rates for the loans were pegged at 12, 5% being short to medium term. According to Industrial Development Policy (2012-2016) the government was looking forward to establish a new financial institution to provide medium and long- term funding to the productive sector of the economy. According to an interview with the Ministry of Industry and Commerce the modalities for setting up an industrial funding institution have been completed however the challenge is now on raising 100 million dollars required as seed capital as treasury is financially constrained.

### **3.2.9 Government Support.**

Government intervention is necessary for economic growth and industrialization given that the East Asian countries were extensively supported by the government on exporting and industrialization. Korean government adopted the first- five year plan for Economic development in 1962 they adopted an export promotion strategy whereby the government would support the exporting firms with various incentives measures which included favourable treatment in the allocation of credit and taxation system. The government would have meetings with exporting industries and monitoring the performance of supported firms. (Kim 1995). In Zimbabwe there was launch of Industrial Development Policy (2012 -2016) as a strategy for industrialization in



Zimbabwe. The main aim of the IDP is to create a vibrant, self-sustaining and competitive economy through promotion of viable industrial and commercial sectors as well as domestic and international trade. It also seeks to address deficit infrastructure, technology and power generation with the ultimate objective of reducing cost of doing business in Zimbabwe.

The broad policy objectives are to:

- Create additional employment in the manufacturing sector;
- Raise capacity utilization in the manufacturing sector;
- Restore contribution of manufacturing sector to GDP to 30%;
- Promote investment in value addition;
- Promote utilization of available local raw materials in the production of goods;
- Promote the growth of industries, including strengthening clusters and reviving closed companies;
- Promote foreign and domestic investment;
- Increase capacity utilization through re-tooling and recapitalization of industry;
- Assist in reducing the imbalance of development between the provinces in the issue of economic opportunities, employment creation and growth.

The government of Zimbabwe formed the Ant- Corruption Commission in 2005 which investigates and exposes cases of corruption in the public and private sectors. The policy is not very effective this is seen when most of the politicians are involved in the corrupt activities in the nation they are not jailed.

### **3.2.10 Regional Integration**

Zimbabwe is being involved in the SADAC Industrialization Strategy and Road Map 2015-2016. The strategy aims to transform the economies, enhance economic growth and creation of jobs in the region. The region is working on the strategies that will increase capacity utilization for the industries and also for the region to move from exportation of raw material only but also finished products. The strategy identified sectors such as agro processing, pharmaceuticals and minerals since the region can produce these. As a region they are looking forward to value chains whereby a country can process up to a certain level and pass to another country for future processing. (SADAC 2015-2063)

### **3.2.11 Duty Rebates**

The government of Zimbabwe in trying to resuscitate the local industry has reviewed the travellers' rebate. The rebate which is granted on the goods imported by a traveller once a month has been reviewed downwards from US\$300 to US\$200. This will result in the decrease of imported products thereby supporting local industry. (Midterm Fiscal Policy, 2016).

### **3.2.12 Improving the business environment**

The government of Zimbabwe is implementing strategies to ensure that doing business in the country is less cumbersome. Zimbabwe Investment Authority (ZIA) established one stop shop thereby reducing number of days needed to set up a business in the country from 48 to 5 days. This will attract foreign direct investment into the country which is needed by the industry to grow. (IDP 2012-2016)

### **3.2.13 Border Efficiency Management System**

In an effort to stimulate trade, Government through has adopted the Border Efficiency Management System which seeks to promote trade facilitation and reduce congestion at the country's border posts through encouraging efficiency and joint clearance by border authorities. Efforts are currently at an advanced stage to transform Beitbridge into a One Stop Border Post. This will also help the industry in reducing time needed to clear the products since most of the raw materials are currently imported. The cost of delays by one day used to be between US\$250 and US\$500 and when it became one border post the clearance of trucks have been reduced from three days to two hours. Efforts are currently at an advanced stage to transform Beitbridge into a One Stop Border Post. This will also help the industry in reducing time needed to clear the products since most of the raw materials are currently imported. (Zimbabwe Cotton to Clothing Strategy 2014-2019).

### **3.2.14 Quality Standards Regulatory Authority**

The draft Bill on the quality standards authority was approved by the Attorney General's Office and is waiting to be considered by the Cabinet Committee on Legislation before it goes to Cabinet and Parliament. Currently the government is implementing the Consignment Based Conformity Assessment Programme whose full implementation commenced on 1 March 2016. Here the goods being exported to Zimbabwe have to go undergo consignment verification; the goods will be assessed in the country of origin. The government has agreement with Bureau Veritas and this arrangement will lapse when the Zimbabwean Standards Regulatory Authority is established to monitor and control imports, exports and local goods to ensure quality, health and safety. These will protect the local industry from competition with substandard and cheap products from other countries. (Ministry State of Industry Report 2016).

### **3.2.15 Value Chains**

Value chains are set of activities that are interlinked leading to the production of the final product. The Confederation of Zimbabwe has identified 18 value chains as the private sector is seeking to drive the country's industrialisation strategy. The value chains which were identified include asbestos to roofing, diamond to jewellery- ornaments, tobacco to cigarettes, maize to maize meal, cotton to clothing, limestone to -quarry - cement and coal bed methane- to- gas to plastics. The value chains will help the country to have value added products than specialising only with raw materials. (CZI 2015).

### **3.3 Conclusion**

There are a number of strategies being implemented in Zimbabwe to industrialise the nation. For the past years the manufacturing sector has been facing challenges and strategies such as import substitution, infrastructure development, attracting foreign investors and disbursements of funds are being used to boost the industry. The manufacturing industry is facing problems in the production costs so for the import substitution to be more effective the government should look in the producing of raw materials which are being imported by companies to manufacture the final products. The industries should be protected for a certain period of time so that they compete with others on the international market and this will promote production of quality goods due to faced competition. The manufacturing sector to be competitive the production cost should be low so the government should put more effort in the enhancement of infrastructure sine this is necessary for the activities done in the manufacturing sector. Small and medium enterprises are important for the growth of the economy but the issue of collateral for them to acquire loans should be revised and see the best way for them to benefit from the loans. Also for the industry to be competitive there is need for new technology and equipment. Though the government has put strategies in place there is need for continuing looking for funds and also the conditions for foreigner investors should continue to be revised to attract more investors.

## Chapter 4

### **Notable Improvements in the manufacturing sector as a result of Government interventions.**

#### **4.1 Introduction**

The previous chapter has dealt with various strategies Government put in place to promote industrialisation. This chapter therefore seeks to establish the role these strategies played in improving the performance of the manufacturing sector and what should be done for further improvements.

#### **4.2 Overall manufacturing sector improvements**

The **Cooking oil industry** is currently operating an average of 90% capacity utilization and the **Yeast industry** which was almost closed, is now at 83%. The **Biscuit manufacturing industry** has gone up from 35% to around 75% and the **Furniture manufacturing sector** improved capacity from 45% to 70%, whilst the detergent industry has moved from around 30% to 60%. The **Cement manufacturing industry** has nearly invested about US\$200 million, whilst in the **dairy sector**, the Dairy Industry Revitalization Fund managed to mobilize a total of US\$745 766 and out of that, about US\$520 000 was used to purchase 400 heifers in September 2016 to boost local raw milk production.(Ministry of Industry and Commerce 2016)

### **4.3 Retail stocking**

Recent results of the retail survey carried out by the Ministry of Industry and Commerce in Mashonaland East and West Provinces in May, June and September 2016 have shown that shelf occupancy space is around 70% and 30% for locally produced goods and imports respectively. This move compliments the government's ongoing efforts of promoting supply and consumption of local commodities as well as assesses the impact of the current management of imports policy measures.

### **4.4 Specific companies development**

**Treger Group** which manufactures plastics has so far realized an increase in both employment and production capacities from 2006 to 2 172 and 35% to 45% respectively. Monarch Windows and Kango Divisions the company's other divisions have since recalled back their workers.

**Blue Track** which is involved in the manufacturing of synthetic hair products like weaves and braids has raised its production and employment levels from and 150 to 450. Sensational Ltd which is also in the same industry also witnessed an increase in employment from 400-600 workers.

**Chloride Zimbabwe**, a subsidiary of ART Corporation, commissioned new technology of manufacturing lead acid batteries, worth US\$3 million on the 29<sup>th</sup> of September 2016. Production capacity is now at full level producing about 240 000 to 360 000 units per month and employing 300 workers.

**General Belting** recorded an increase in capacity utilization from 10% to 20% producing about 8.5 to 20 tonnes per month and has with 13 more workers thus bringing total employment to 106 people. They have also recorded an increase in their market share from 5%-10% as well as invested in the company's High Pressure Pump at a cost of USD\$30 000, as part of machinery maintenance.

**KDV** a manufacturer of mattress has increased capacity utilization from 70 to 85% producing about 2700 to 3500 mattress per month and has increased from 54 to 58 workers and They also envisage to increase operating time to 24 hours to cater for the increase in demand which has since risen to about 35% since the coming into effect of SI 64 of 2016.

**Nespot Holdings** which is a local manufacturer of detergents recently invested in bottle blowing machinery and an automated packing line valued at US\$3 million. The company has subcontracted a Mauritian company to produce washing powder for them and it currently employs 100 people.

**Datlabs** sales volumes have since gone up and capacity utilization have increased from 30% to 50% on the camphor cream line and it is envisaged to reach 70% by end of 2016.

**Prochem** has recorded an increase in both capacity utilization and employment levels with the introduction of SI 64 of 2016, from 30% to 48% and 43 to 101 workers respectively.

**Variplastics** is in the process of procuring Cavity Plastic Blow Moulds machinery and a petroleum jelly manufacturing and packing as well as double station blows Moulding Machines. The company has since increased its distribution trucks from 4 to 7.



#### **4.5 Investment Approvals under the Indigenization and Economic Empowerment Act**

From April-September 2016, the Ministry of Industry and Commerce has approved a total of 37 investment proposals in the manufacturing sector, worth US\$60.6 million and this is expected to create about 1 195 jobs. Some of the new investments which were approved in 2015 are now coming on stream, with some at advanced stages of construction. A good example is Willowton Group factory which is now complete, Trade Kings which is almost due for completion.

#### **4.6 Implementation of Ease of Doing Business Reforms**

Following concerted efforts to improve the local competitiveness environment, Government during the second 100-day plan target (February-June 2016), reviewed the procedure manuals and other legislation which are hindering business operations in the country. Currently, Zimbabwe is ranked number 155 out of 189 economies in terms of the World Bank Ease of Doing Business 2016, an improvement from position 171 in 2015.

#### **4.7 Recent investments made in the manufacturing sector**

The local manufacturing sector has been making strides towards retooling, in spite of the difficult economic environment. The following recent achievements were noted over the period in 2016:

#### **4.7.1 Agro-processing**

According to the Ministry of Industry and Commerce report (2016) on the agro-processing sector, 24 companies managed to invest in new equipment worth US\$263.4 million. This represents new companies and expansion of production scale by existing companies. Five were new companies in the food industry, 3 were revived companies that had closed operations due to viability challenges and 16 were expanding their production capacity by installing state of the art equipment. According to the Ministry of Industry and Commerce (2016), at least 5527 jobs were created in the agro-processing sector since 2014 and capacity utilisation increased by approximately 51% as result of import controls. Interview with the Ministry indicated that Government put in place Statutory Instrument 126 of 2014 to control influx of food stuffs thereby promoting local food industry. Import tariffs were also reduced on importation of raw materials such as industrial grade sugar for the manufacture of biscuits and drinks. Some companies entered into partnership with foreign companies which injected fresh capital for recapitalisation and working capital requirements. Major players in the sector include, Blue Ribbon, Probrand, National Foods, Willowton Group, Advance Africa Holdings, Olivine Industries, Dairibord Zimbabwe, Associated Foods Pvt Ltd/Zimbabwe Agro-processors, Trade Kings, Surface Wilmar, Lesaffre Zimbabwe (Anchor Yeast) and Arenel among others. The sector was however, affected by poor agriculture production and employment growth has been affected by adoption of automated production technology. The sector is poised for growth on assumptions that there will be normal to above normal rainfall, success of command agriculture programme, continued effective and efficient import controls by Government and use of state of the art technologies by manufacturing companies.

#### **4.7.2 Metals and Electricals**

According to the Ministry of Industry and Commerce (2016), investment totalling US\$18 million was recorded in the metals and electrical sector. Approximately 190 jobs were created in this sector and average capacity utilisation increased from below 10% to around 30% due to viability challenges which include competition from imports in the electrical. The sector punches below its weight due to non-operational of ZISCO Steel, ZIMASCO and low production at ZIMALLOYS. Interview with Ministry of Industry and Commerce indicated that Government is in the process of resuscitation of ZISCO Steel through identification of a strategic partner following the collapse of ZISCO-ESSAR transaction. The revival of ZISCO is expected to boost the growth potential in the metals, transport, and mining and construction sectors. Joint ventures were also recorded in the chromium industry, breathing some life in major industries such as ZIMASCO. The lift of ban on export of chrome is expected to provide some cash avenues for the chromium industry which is critical to revive some operations of the companies in that sector, paving way for greater recapitalisation. The sector is expected to experience growth due to resuscitation of ZISCO, given its downstream and upstream impact as well as the multiplier effect in the construction and mining sectors. In the production of televisions and refrigeration, duty rebate has been introduced on importation of completely knocked down kits, components required in the manufacture of television and refrigeration to make the industry more competitive as compared to imports. This has seen a surge in the production levels by above 50% and sales orders by around 30% (Ministry of Industry and Commerce, 2016). Major players in the metals and electrical sector include, ZIMASCO, ZISCO Group, ZIMALLOYS, SAMZIM, Capri, CAFCA, Alumin metals, Stainless Steel, among others.

### **4.7.3 Chemicals and Plastics Sector**

The chemicals and plastics sectors received significant amounts of investment totalling at least US\$106 million. Approximately 950 new jobs were created and average capacity utilisation has risen to around 50% by July 2016. The improvement is primarily attributed to the introduction of statutory instrument 64 of 2016 which controls importation of plastic packaging and chemicals. According to the Ministry of Industry and Commerce (2016), the introduction of import controls has seen new companies coming to open new factories in Zimbabwe for the manufacture of cement and plastics, for example Livetouch Investment and Polyoak Packaging. In the cement manufacturing, PPC has also expanded its production capacity by setting up a new factory in Harare. Some companies have increased their production capacities taking advantage of import controls (Ministry of Industry and Commerce, 2016). The pharmaceutical sector has also seen improvement in their production but let down by the dysfunctional CAPS which is expected to identify an investment partner.

### **4.7.4 Leather Sector**

Investment in the sector was low at US\$2 million, mainly recorded from Bata Shoe Company in Gweru which has established its 4<sup>th</sup> Associated Business Unit (ABU) which makes shoe uppers for Bata, resulting in 200 jobs being created by ABUs. Total employment currently stands at 1300, including retail outlets and capacity utilisation is around 70% capacity. Over the past two years, the company ventured in upgrading operations and retail stores expansion at a cost of US\$1.5 million and an additional US\$0.5 million has been budgeted for capital investment in 2016.

#### **4.7.5 Wood and Furniture**

Investment for the sector was the lowest as compared to other sectors, calculated at US\$700 thousand. Production of furniture and bedding is expected to increase by almost 50% (30-60 units per day) while approximately 250 jobs were created. The installation of automated equipment adversely affects the increase in employment in the sector. According to the Ministry of Industry and Commerce (2016), the promulgation of SI 64 of 2016, which saw the removal of furniture and other furniture related productions has seen companies in the furniture industry retooling. In June 2016, Calundike Exports, a subsidiary of the Nyaradzo Group invested EURO243 000 into capital equipment for manufacturing coffins, caskets and furniture and a dust extraction machinery. In addition to import controls, the sector enjoying is duty rebate on importation of raw materials for furniture making thus makes them competitive against imports. Major players include Acefoarm, Universal Furnitures, Teachers Furnitures and National Furnitures, among others. Teachers Furnitures is also one of beneficiaries of Zimbabwe Economic and Trade Revival Fund and invested in construction of premises and procurement of new equipment for furniture making in Graniteside, Harare.

#### **4.7.6 Motor Industry**

The sector recorded total investment of above 50% as of June 2016 (Ministry of Industry and Commerce, 2016). The sector boasts of two major players in the motor vehicle assembling which are Willowvale Motor Industries and Quest Motor Corporation. Willowvale is looking forward to partner with a Chinese company called Beijing Automotive Industry Holding (BAIC). Both players have invested in new equipment to produce new vehicle brands. With the suspension of

customs duty by government on the kits which are used on the single and double cab motor vehicle imported by approved assemblers in the country this is expected to boost production. The industry faces a challenge of competition from second hand vehicles and cheap motor vehicle imports from Japan and South Africa. The sector needs to consider production of first entry motor vehicles and better terms of payments to increase their sales. The South Africa tyre giant, Tiger Wheel and Tyre established traditional fitment centres in Harare and Bulawayo.

Though there have been some notable improvements in the manufacturing sector, there is still a lot to be done to enhance the gains obtained so far. From the lessons learnt, suggestions have been put forward to achieve greater industrialisations as follow.

#### **4.8 Access to credit lines.**

Government has availed some funding targeted at recapitalizing and financing working capital requirements for distressed companies in the manufacturing sector. Notable examples include the Distressed and Marginalized Areas Fund and the Zimbabwe Economic and Trade Revival Fund. These facilities were of medium to long term nature and interest rates were lower than the market rates, thus around 12% per annum. Most companies could also not benefit from DIMAF and ZETREF because the requirements were just too many and had stringent conditions which the companies could not afford and the process was just too cumbersome which resulted in many companies failing even to attempt to apply. Therefore there is need to loosen up some of the stringent conditions and also speed up the disbursements of such funds so that companies are able to benefit and improve on their operations. There is need for the government to consider that they will be dealing with distressed companies which are at verge of collapse or some of them

would have already collapsed so the conditions should be welcoming. If the companies is faced with many conditions needed to qualify for the debt whilst facing many challenges it will be not possible for it to be considered a for the loan.

Lack of affordable long term funding on the financial market is one of the debilitating factors affecting industries. Companies are using short term facilities to fund long term projects which are not viable as the company needs to repay before they make any revenues from those projects. This has resulted in rise in non-performing loans with banks. Government and financial institutions should desist from providing short term funding to distressed companies and introduce facilities which suit the current industry context in order to promote industrial growth and reduction of non-performing loans. In addition, Government should mobilise more funding targeted at bailing out industries in distress and to fund recapitalization, retooling and modernization to augment other measures such as import controls in order to maximize the pay offs. These funding facility should be availed at interest rates far below the market rates to make them affordable to companies of different sizes.

#### **4.8 Efficient Operations of Enablers**

There is need to ensure that organizations producing and supplying critical enablers such as power, water, coal are operating as efficient as possible, and are charging reasonable tariffs. Most of the companies in the country are facing challenges due to high utility charges such as ZESA, and Tel one. These utilities should try and not do a lot of shedding to the striving industries. An interview with the Ministry of Industry and Commerce showed that many times has the Ministry tried to intervene whereby some bigger companies are switched off their

electricity by ZESA as they will be having big debt and struggling to pay since the tariffs are high. The closing of these big companies will not be a good picture to the international investors. The utilities such as ZESA should bear with the industries as they are trying to revive, the penalties for the debt should spare the companies so that they continue to survive.

#### **4.9 Improve the business environment**

The ease of doing business in Zimbabwe is very low according to the World Bank rankings or international standards. In addition the business environment is fraught with risk due to policies such as the indigenization and economic empowerment, fast track land reform programme and lack of property laws to safeguard the property rights of investors. This has scared away investors and had adverse effects on foreign direct investment which is critical for growth. In light of this, Government should ensure that the ease of doing business is improved to promote investment both from local and foreign investors. The indigenization law should be done in such a way that investors should not lose their properties or capital. Even though it is argued that in the manufacturing sector the shareholding required is no longer fixed at 51/49%, it should be supported by necessary laws to foster investors' confidence. There should be consensus between the Ministries which are responsible for the policies for instance the indigenization policy the two Ministries thus the Ministry of Youth and Empowerment would be preaching different gospel from the Ministry of Industry and Commerce and this will confuse the investors who would like to do investments in the country.



#### **4.10 Infrastructure development**

At the moment Government faces budgetary constraint as witnessed through its failure to pay civil servants on time. In order to expedite infrastructure development, Government should take seriously strategies such as public private partnerships, built own operate arrangements and other arrangements which ropes in collaboration from private players. The Government should ensure that its rail transport is functional since this will ease costs for the industrialists which they incur when transporting their raw materials and even the finished products. Also air transport should be improved since some of the products have to be exported to far countries and also might be perishable goods.

#### **4.11 Import substitutions**

Government has introduced import controls as an import substitution industrialisation strategy. Government should then monitor and evaluate progress on the ground to ensure that protected companies have put in place plans to recapitalize and modernize their production to avoid permanent protection of inefficiencies and monopolies in the manufacturing sector which is unhealthy to the economy. The import controls should be buttressed by other strategies such as funding to ensure that the companies will quickly recapitalize and have positive pay offs. Though some industries are benefitting from the import substitution most of the raw materials are being imported, an interview with the Ministry of Industry and Commerce showed that the companies in the cooking oil sector are importing the raw material and it was being recommended that in future the industrialists should be availed with land so that they can grow soya bean, cotton using contracting farming so that the raw materials are produced locally.

Although some success stories have been recorded as a result of the SI, as highlighted above, however its implementation is not without its own challenges. The challenges include the smuggling of the goods into the country which are being protected and also delays in the processing of licences by the responsible authorities and if this becomes cumbersome it means those companies in need of raw materials this will delay the whole process. It means the border controls should be tightened and more efficiency should be injected in the licencing process. .

According to interview with the Ministry of Industry and Commerce (2016), Government is aware that the SI intervention has unintended effects in the short-run. However, these will be addressed in the long run when the manufacturing sector finally recapitalizes. On the same note, the Government is encouraging traders to import raw material which are not locally manufactured instead of finished goods.

#### **4.12 Duty rebate system/Exemption of duty**

Government has introduced the duty rebate system and exemption of duty on raw materials and components and machinery and equipment respectively. The aim is to promote importation of raw materials for value addition and to encourage investment in state of the art technologies through importation of new machinery and equipment. However, care should be taken to ensure that importation of products which qualify as intermediate goods will not affect the local producers of the same products as finished goods, for example water tanks are classified as intermediate goods while they can be classified as finished goods. Duty on the finished goods which are locally available should be increased to discourage people from buying outside the country so that the local industry can be protected until such a time when it becomes competitive.

#### **4.13 Pre-shipment inspection**

To prevent importation of substandard goods, Government has introduced pre-shipment inspection. Substandard goods were affecting producers of high quality goods. The government should ensure that the standards used to inspect goods flowing into the country suit the socioeconomic status of the citizens of Zimbabwe. Some of the high quality products are not affordable to low income earners in Zimbabwe, thus prejudicing their livelihoods means and worsening the poverty levels.

#### **4.14 Procurement Policies**

Some of the government agencies or departments are procuring their consumables from outside the country for example police sourcing all their vehicles from South Africa. They should be encouraged to source locally for example from Quest Motors. These will help to boost local production.

#### **4.15 Research and Development**

Research and development is one of the critical factors for innovation and growth. Companies which do not invest in research are planning to fail. Industries should invest in products and services development in order to survive in a dynamic global village. Government and institutions of higher education should partner with private sector to establish research centers.

#### **4.16 Technology upgrade**

Companies should invest in new technologies to enable them do mass production which maximizes production but minimizes production costs per unit. Industries should also adopt new technologies in factory designs, products design and marketing of their products. This will help them improve quality of their products and increase sales.

#### **4.17 Improve agriculture production**

Zimbabwe's industry is mainly agro-based and the decrease in the agricultural production adversely affected the industrial sector. Companies need to source their raw materials and other inputs from other countries due to shortage on the local market resulting from poor agricultural production. In light of this, Government should put measures to ensure that agriculture production has increased. It should place more arable land under irrigation. Companies should also engage in contract farming to help boost agriculture production which feeds into their production processes. In addition, Government can allocate agro-based industries farms so that they can do farming for their production process.

#### **4.18 Value Addition**

The companies should put more effort in value adding their products to improve the manufacturing status of the country. The companies should go beyond primary processing to secondary and tertiary processing. This will earn the country more foreign currency as more finished products are being exported.

#### **4.19 Small and Medium Enterprise**

The government should also give much attention to the small and medium enterprises. The startup costs for these enterprises are not very high as in big industries. Many people will be employed and also will contribute to economic growth if they are fully supported.

#### **4.20 Conclusion**

Zimbabwe's industry has a great potential for growth. While Government has introduced import control measures and other interventions such as duty rebates, funding is very critical to enhance the growth that has been experienced in the local manufacturing so far. Greater consideration should also be placed in boosting agriculture production which exhibits a strong linkage with the Zimbabwe manufacturing industry. Moreover, a strong monitoring and evaluation team must start active involvement to see improvements and challenges which might threaten the gains received so far in the industry. Though Government plays a critical role in industrialising the economy, the world is moving towards globalisation hence companies should come up with business models that make them competitive on the international markets and increase Zimbabwe's exports.

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## **Appendix 1**

### Interview Questions

1. Which strategies are being used to promote industrialization?
2. Which incentives are being used by government to increase production in the manufacturing sector?
3. Did government provide any funding to the manufacturing sector? If yes how friendly were the facilities.
4. Which sectors are you protecting and why?
5. Are there any problems in trying to implement the strategies?
6. What effect does the indigenization policy have on the manufacturing sector?
7. Is government looking for any strategic partners for the industry?
8. Are there any improvements in the industrialization?
9. What are the future plans to boost the manufacturing sector?