Executive Summary

South Africa's relationship with Zimbabwe has existed for more than a century, and is pivotal for both countries. Over the years, the nature of the countries' relationship has been shaped by the various political protagonists in each of them at any specific time.

Strong economic ties were maintained despite the often mismatched political dispensations on either side of the border. Zimbabwe was, until recently, South Africa's most important trading partner in Africa, and one of the 15 countries globally with which South Africa exchanges the highest volume of trade. In 2002, major projects in Mozambique displaced Zimbabwe from the top spot, but trade between Zimbabwe and South Africa remains brisk. South African exports to Zimbabwe are still fairly sizeable, standing at R6,2 billion in 2004, although this represented a drop from R7,3 billion in 2002. However, these official figures do not take into account the mushrooming informal trade that has been taking place across South Africa's borders with Zimbabwe since the beginning of the economic and political crisis in that country.

There is a significant South African business presence in Zimbabwe. About 27 of South Africa's biggest listed companies have operations there, and a number are also listed on the Zimbabwe Stock Exchange. Some of these are its top performers.

The political relationship has been less successful. Hostility between the two governments was, predictably, high during the apartheid era after Zimbabwe had achieved black majority rule. But even since the advent of black rule in South Africa, relations have been less than idyllic. Despite the initial political closeness between their leaders in the period

immediately after 1994, the relationship began to sour in the late 1990s. President Robert Mugabe's increasing resentment of South Africa's powerful role in the region, which displaced Zimbabwe as the region's power broker, coincided with outspoken criticisms by Nelson Mandela, South Africa's former president, of Mugabe's growing authoritarianism and the length of his stay in office. However, since 2000, when Thabo Mbeki became president, the relationship has thawed somewhat. Ironically, the new détente in the relationship has contributed to the prolonged economic and political decline in Zimbabwe. In the face of serious political and economic decline in Zimbabwe, the South African government has opted for a policy of 'quiet diplomacy', which has deflected international attempts to censure the country. Over the five years that followed, the policy showed little evidence of influencing events in Zimbabwe. Instead, the human rights, political and economic situation deteriorated significantly.

Meanwhile, South African companies operating in Zimbabwe continued to find ways to deal with the country's distorted and largely dysfunctional economy in order to maintain a presence there in expectation of eventual political change and economic recovery.

The main findings of the research conducted into the experience of South African companies operating in, and doing business with, Zimbabwe include the following.

- Long-standing business ties have not been severed by the current economic problems, although many companies have preferred to '**ringfence**' their Zimbabwe operations, keeping financials separate from the overall group operations, as a way of riding out the storm. Although most companies have limited contact with **head office** in South Africa, they believe that if they were faced with a real problem the parent company would intervene to help them. However, the fact that Zimbabwe has not signed the **trade and investment protection agreement** drawn up with South Africa makes companies feel more exposed to the vagaries of Zimbabwe's economic policy, particularly as regards property and nationalisation of assets.

- The government's **erratic policy decisions,** and the resulting **hyperinflationary environment,** has made doing business difficult because it precludes long-term planning, and forces companies to revise salaries and other costs on a monthly or quarterly basis.
- The issue of **wages** has become complex and administratively difficult owing to the need for regular inflation adjustments, and the fact that companies have to negotiate an annual increase for their workers with the national employment councils separately.
- **Foreign currency** shortages are a critical problem for companies, which often have difficulty obtaining dollars. However, a number of companies say the percentage of the export earnings they are allowed to keep in foreign currency accounts (which changes regularly, as the government's economic policy twists and turns) covers their import needs. Although a number of South African companies have made good returns on the stock exchange, many do not repatriate **dividends** because of the foreign currency shortages.
- The role of the **Reserve Bank** has become increasingly unclear. It has assumed several functions that put it in competition with the banks, which has caused some confusion.
- Some companies' products are subject to government's **price controls.** This has made their products unviable, as they are required to pay market-related costs for inputs but are

not allowed to charge market-related prices for the goods they produce. They are also more subject to political harassment than other companies.

- The declining **skills pool** as a result of massive migration and the fallout of high **HIV/Aids infection** rates in the workforce has presented a problem for some companies.
- The **domestic market** has shrunk rapidly over the past five years, in terms of both numbers of consumers and their disposable income.
- Deteriorating **living conditions** have forced people to become self-sufficient. Many use borehole water, run generators to counter the increasing number of power cuts, and import their own fuel where possible. Ongoing **fuel shortages,** in particular, have hit business hard.
- The **lack of equity** in the local market for partners in Zimbabwe to take up stakes in South African-owned or run companies is proving to be a problem in an environment where there is increasing pressure for indigenisation.
- While **corruption** was not high on the list of problems mentioned by companies, some business people said it had become a factor in doing business in Zimbabwe, particularly with regard to companies linked to government officials. **Crime** is increasing rapidly, and is becoming more sophisticated. Apart from white-collar crime, armed robbery and hijacking are becoming more prevalent.