

IMPACT OF TRADE AND ECONOMIC LIBERALISATION
POLICY REFORMS ON THE OPERATIONS OF SELECTED
SMALL TO MEDIUM ENTERPRISES (SMEs) IN
ZIMBABWE; A COMPARATIVE STUDY WITH SOUTH
AFRICA'S EXPERIENCES

BY TRYMORE CHINGWARU

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SUPERVISOR: DR MARIE DE BEER

SIGNATURE.....DATE.....

CO SUPERVISOR: DR DUMISANI ZONDO

SIGNATURE.....DATE.....

Declaration

I, the undersigned, **Trymore Chingwaru**, hereby declare that this thesis is my own work and that it has not been submitted to any other institution for degree award or other purpose.

SIGNATURE

A large black rectangular box redacting the signature of the undersigned.

DATE: 30 AUGUST 2014

Abstract

The study assesses the impact of trade and economic liberalisation policy reforms on the operations of selected manufacturing small to medium enterprises (SMEs) in Zimbabwe, and then compares the findings with experiences from South Africa's SMEs. Motivation for the study was premised on two fronts. Zimbabwe and South Africa are currently faced with high unemployment rates (80% for Zimbabwe and 25% for South Africa). It therefore follows that job creation and poverty alleviation are the two pressing challenges facing the governments of Zimbabwe and South Africa. Secondly, the governments of Zimbabwe and South Africa have identified SMEs as the engines of economic growth with a special focus on addressing the twin challenges of unemployment and poverty alleviation. The roles and hopes bestowed on SMEs calls for a thriving and vibrant SME sector. On the other hand the adoption of trade liberalisation policies in the two countries has led some analysts to cast doubts on the ability of SMEs to withstand the fierce competition from established Multi-National Corporations and cheap imports.

Employing a combined qualitative-quantitative approach, the study finds that trade and economic liberalisation policy had a negative impact on the operations of manufacturing small to medium enterprises in both Zimbabwe and South Africa. Cash-strapped SMEs have been strangled by resource-rich Multi-National Corporations. So dire is the situation that in the absence of significant government intervention, SMEs face an uncertain future. Compounding the matter is the fact that most SMEs in two countries are not involved in exports due to lack of knowledge and resources. The innovativeness ability of most SMEs remains very low. The study does not find significant differences on the impact of trade liberalisation policy reforms between SMEs in Zimbabwe and those in South Africa.

It is recommended that the governments of Zimbabwe and South Africa need to introduce incentives to encourage SMEs to export and thus employ more people. Governments in Zimbabwe and South Africa need to factor in the transfer of technology to SMEs as one of the clauses when they negotiate the entry conditions of MNCs. In addition, the governments in Zimbabwe and South Africa must reintroduce tariffs in certain critical sectors of the economy to curtail cheap imports. It is cautioned that failure to protect SMEs could jeopardise the survival of most SMEs in Zimbabwe and South Africa, translating into increased unemployment, poverty and unequal wealth distribution.

Dedication

To Aaron Ruzvidzo. You were more than a father and a friend. This piece of work bears testimony to your inspiration. It is a pity you won't be able to witness this life-changing experience of my life. I will forever remain indebted to you. May your soul rest in eternal peace

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List of acronyms and abbreviations

AfDB.....	African Development Bank
AREX.....	Agricultural Research and Extension
BACOSI.....	Basic Commodities Supply Side Intervention
BBBEE.....	Broad Based Black Economic Empowerment
BWIs	Bretton Woods Institutions
CABS	Central African Building Society
CBZ	Commercial Bank of Zimbabwe
CIPRO.....	Companies and Intellectual Property Registration Office
COMESA.....	Common Market for Eastern and Southern Africa
CPI	Consumer Price Index
CSO.....	Central Statistical Office
CZI	Confederation of Zimbabwe Industries
DST	Department of Science and Technology
DFID	Department for International Development (UK)
DRC	Democratic Republic of Congo
DTI	Department of Trade and Industry
ECOWAS.....	Economic Community of West African States
ESAP.....	Economic Structural Adjustment Programme
ESOPs	Employee Share Ownership Plans
EU	European Union
FAO.....	Food and Agricultural Organization
FDI.....	Foreign Direct Investment
GDI	Gross Domestic Income
GDP.....	Gross Domestic Product
GEM.....	Global Entrepreneurship Monitor
GNP.....	Gross National Product
GNS.....	Gross National Savings
GOZ	Government of Zimbabwe
HIPC	Highly Indebted Poor Countries
ICT	Information and Communication Technologies

IFCInternational Financial Corporation

IMFInternational Monetary Fund

List of acronyms and abbreviations (continued)

LDCsLeast-Developed Countries

MDGMillennium Development Goal

MNCMultinational Corporation

MPCMonetary Policy Committee

MVAManufacturing Value Added

NACNational Aids Council

NCANational Credit Act

NCRNational Credit Regulator

NEC.....National Employment Council

NGO.....Non-Governmental Organisation

NSB Act.....National Small Business Act of 1996 as amended by the National Small
Business Amendment Act of 2003 and 2004

NSBACNational Small Business Advisory Council

NYDA.....National Youth Development Agency

OECD.....Organization for Co-operation and Development

OVCOrphans and Vulnerable Children

PAZ.....Privatization Agency of Zimbabwe

PE.....Public Enterprise

PLARPParastatal and Local Authorities Reorientation Program

PSIP.....Public Sector Investment Programme

PWC.....Public Works Component

RBZ.....Reserve Bank of Zimbabwe

REERReal Effective Exchange Rate

RER.....Real Exchange Rate

SASouth Africa

SADC.....Southern Africa Development Community

SamafSouth African Micro Apex Fund

SAPStructural Adjustment Programme

SEDASmall Enterprise Development Agency

SMESmall to Medium-Enterprise

SMBsSmall and Medium Businesses

SMMEsSmall, Medium and Micro-Enterprises

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List of acronyms and abbreviations (continued)

TNC	Transnational Corporation
UDI	Unilateral Declaration of Independence
UNAIDS	Joint United Nations Programme on HIV/AIDS
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
UNIDO	United Nations Industrial Development Organisation
USAID	United States Agency for International Development
UZ	University of Zimbabwe
WTO	World Trade Organisation
ZIC	Zimbabwe Investment Centre
ZIMDEF	Zimbabwe Manpower Development Fund
ZIMPREST	Zimbabwe Programme for Economic and Social Transformation
ZISCO	Zimbabwe Iron and Steel Company
ZMDC	Zimbabwe Mining Development Corporation
ZSE	Zimbabwe Stock Exchange

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Definitions of terms used in the research

Comparison - refers to the act of matching items to determine similarities and differences.

Empowerment - In this context, empowerment refers to the act of according economic power to previously disadvantaged segments of the society (Chimhandamba, 2007).

Ownership – The legal right to the possession of something (Veloso, 2008).

Profitability - It constitutes the ability of a business to make a profit after taking all the operating costs into account (Mohr and Fourie, 2004).

Technological innovation - Technology is the application of science, especially to industrial or commercial objectives. Innovation refers to the act of introducing something new. Technological innovation therefore entails the use of science to produce something new (Fioravante and Maldonado, 2010).

Turnover - Refers to the volume of sales during the financial year (Mohr and Fourie, 2004).

Unemployment - The number of people who are above 15 years old and are willing and able to work but cannot find a job (Mohr and Fourie, 2004).

Zimbabwe

Zimbabwe, officially the Republic of Zimbabwe, is a landlocked republic in Southern Africa. The country is bordered by Zambia on the northwest and east by Mozambique, on the south by South Africa and on the southwest by Botswana and the Caprivi Strip of Namibia. It was formerly the British colony of Southern Rhodesia (later Rhodesia). In April 1980, following multi-party elections, Rhodesia became formally independent as the Republic of Zimbabwe. The total area of the country is 390 759 square km (Government of Zimbabwe, 2012).

Harare

Harare is Zimbabwe's largest city, and main commercial and cultural centre, as well as its capital. Harare is also Zimbabwe's administrative, commercial and communications centre. It is a trade centre for tobacco, maize, cotton and citrus fruits. The private sector economy of Harare is dominated by manufacturing and service industries. Manufactured goods include textiles, chemicals, and foodstuffs, among others (Government of Zimbabwe, 2012).

Manufacturing sector

Manufacturing is a sector of the economy responsible for producing a wide range of commodities, ranging from food and beverages, to chemicals, clothing and different metal products. According to Gono (2005), manufacturing provides approximately 20 percent of formal employment in Harare. A greater portion of the manufacturing activities in the Harare

Metropolitan area, are spread in the following categories: food processing, textiles, clothing and footwear, plastics and metal products, and furniture (Gono, 2005).

South Africa

South Africa, officially the Republic of South Africa, is a country located at the southern tip of Africa. It is divided into nine provinces, with 2,798 kilometres of coastline, on the Atlantic and Indian oceans. To the north of the country lie the neighbouring territories of Namibia, Botswana and Zimbabwe; to the east are Mozambique and Swaziland; while Lesotho is an enclave surrounded by South African territory.

South Africa is multi-ethnic and has diverse cultures and languages. Eleven official languages are recognised in the constitution (Statistics South Africa, 2012). Two of these languages are of European origin: South African English and Afrikaans, the latter being a language which originated mainly from Dutch, is spoken by the majority of white and coloured South Africans. Though English is commonly used in public and commercial life, it is only the fifth most-spoken home language. All ethnic and language groups have political representation in the country's constitutional democracy, comprising a parliamentary republic. Unlike most parliamentary republics, the positions of head of state and head of government are merged in a parliament-dependent President.

About 79.5 percent of the South African population is of black African ancestry, divided among a variety of ethnic groups speaking different Bantu languages, nine of which have official status. South Africa also contains the largest communities of European, Asian, and racially mixed ancestry in Africa.

According to the World Bank (2012) South Africa is ranked as an upper-middle income economy, one of only four countries in Africa in this category (the others being Botswana, Gabon and Mauritius). It has the second largest economy in Africa and the 28th-largest in the world. About a quarter of the population is unemployed and lives on less than US \$1.25 a day (World Bank, 2012).

Pretoria

Pretoria is a city located in the northern part of the Gauteng Province, South Africa. It is one of the country's three capital cities, serving as the executive (administrative) and de facto national capital; the others are Cape Town, the legislative capital, and Bloemfontein, the judicial capital. Pretoria is contained within the City of Tshwane Metropolitan Municipality, as one of several constituent former administrations (among which also Centurion and Soshanguve). Pretoria itself is sometimes referred to as "Tshwane". Depending on the definition of the city limits, the population ranges from 600,000 to 1.2 million (Statistics

South Africa, 2012). The main languages spoken in the Tshwane municipality are Pedi, Afrikaans, Tswana, Tsonga, Zulu and English. Ndebele and Sotho are also widely spoken. The whole Tshwane Metropolitan Municipality had a population of 1,985,997 at the 2011 census (Statistics South Africa, 2012). The city of Pretoria has the largest white population on the African continent. Since its founding, it has been a major Afrikaner population centre, and currently there are roughly 400,000 Afrikaners living in or around the city. Ever since the end of apartheid, Pretoria itself still has a white majority, albeit an ever-increasing black middle-class. However, in the townships of Soshanguve and Atteridgeville, blacks make up close to all of the population. The largest white ethnic group is the Afrikaner and the largest black ethnic group is the Northern Sothos (Statistics South Africa, 2012). As the national administrative (executive) capital of South Africa, Pretoria is the seat of government and houses the headquarters of the main government departments and ministries. As the de facto capital city, it also hosts the foreign embassies and diplomatic missions. The city is a major commercial centre and an important industrial centre. Its main industries are iron and steel works, copper casting, and the manufacture of automobiles, railway carriages and heavy machinery (Statistics South Africa, 2012).

CHAPTER ONE

INTRODUCTION TO THE RESEARCH PROBLEM

1 Introduction

In Zimbabwe, as in many other developing countries, Small to Medium Enterprises (SMEs) have a crucial role to play because of their potential contributions, not only to employment creation, but also to the improvement of income distribution and poverty alleviation especially among women, youth and the less educated. Following the emergence of trade liberalisation in 1990, the Zimbabwean government revitalized the role of SMEs, by positioning them as the engine for export growth through subcontracting linkages with large-scale exporting companies (Nyoni, 2002).

Recent debates among policy makers and researchers, on the subject of SMEs in developing countries have focused on the ability of such businesses to survive or sustain their growth amid growing pressure from globalisation and trade liberalisation. There is a growing body of sceptical contributors who believe that most SMEs in developing countries simply lack the necessary resources, particularly technological advances and skills, to remain competitive in the global marketplace (Tambunan, 2011).

There is little doubt that in the era of trade liberalisation SMEs in developing countries, including those in Zimbabwe, can only survive if they possess the capacity for internationalisation. Indeed, this is a critical factor to determine the competitiveness of SMEs in the global market (Long, 2003). The impact of international trade liberalisation or trade policy reforms on Zimbabwe's economic growth have been studied extensively (Raihan, 2008; Rwafa, 2006; Mudzonga, 2009). However, academic and policy analysis on the impact of trade liberalisation on SMEs in the country, particularly on manufacturing SMEs, remain very shallow.

This study, therefore, attempts to fill the gap by examining the impact of trade liberalisation, especially after the year 2000, on the operation of selected manufacturing SMEs in Zimbabwe. The study further seeks to compare the outcome of Zimbabwe's SMEs, to those of South Africa's SMEs.

1.2 Comparing with South Africa.

The rationale for choosing South Africa as a comparison is premised on the fact that South Africa's \$400 billion economy (the second biggest in Africa after Nigeria) dwarfs Zimbabwe's \$10 billion economy (National Credit Regulator, 2011). Thus, by choosing South Africa, the study aims to make comparisons on the impact of trade liberalisation reforms on the SMEs between an upper-middle income economy (South Africa) and a low-middle income economy (Zimbabwe). In addition, Zimbabwe and South Africa share a lot in terms of history. Both were relatively late in attaining independence (Zimbabwe in 1980, South Africa in 1994). Both believe in economic empowerment of the previously disadvantaged. However and most importantly, trade liberalisation reforms were carried out in environments that could not have been more stark.

In Zimbabwe, reforms were applied in an era of economic meltdown and international isolation due to, among other factors, the land reform policy. In South Africa, trade liberalisation reforms were implemented in a period of commendable economic performance (with the exception of 2007 and 2008) as the country integrated with the global economy after decades of international isolation due to apartheid policies. By comparing against South Africa therefore, the study aims to provide an empirical response on whether trade reforms had similar or different outcomes to countries that were at different economic and political dimensions.

Key issues addressed by the study

Based on key literature on the subject and the most recent country data, this study addresses the following questions:

What was the impact of trade liberalisation policy reforms on the biographical profiles of manufacturing SMEs in Zimbabwe?

What was the impact of trade liberalisation reforms on the turnover, employment and wages of manufacturing SMEs in Zimbabwe?

Were there any innovations among manufacturing SMEs attributed to the trade liberalisation reforms in Zimbabwe?

What impact did trade liberalisation reforms have on company ownership? How have manufacturing SMEs in Zimbabwe been impacted by foreign direct investment and empowerment policy?

How were import and export initiatives for manufacturing SMEs influenced by trade liberalisation reforms in Zimbabwe?

Finally, how do findings from all of the above compare with findings from South Africa's SMEs?

1.3 Research Problem

1.3.1 The case for Zimbabwe

Zimbabwe's unemployment rate is estimated at 80 percent (Robertson, 2013), arguably the highest in the Southern Africa Development Community (SADC) region. A manufacturing capacity utilisation survey for 2013, done by the Confederation of Zimbabwe Industries, shows that the capacity utilisation by manufacturing companies in Zimbabwe is at 39 percent, down from 57 percent in 2011 (Confederation of Zimbabwe Industries, 2013). It follows therefore that job creation and poverty alleviation are two pressing challenges currently facing Zimbabwe. The country's capacity to address the high unemployment and poverty levels is partly hampered by Zimbabwe's sliding economic conditions due to trade and economic reforms, among other factors. The encouragement and support of SMEs in Zimbabwe is therefore important in the light of the many economic challenges which the country is experiencing (Gono 2013).

1.3.2 The case for South Africa

In South Africa, there exist an estimated 2,2 million small, medium and micro-enterprises (SMMEs), absorbing about a quarter of the labour force of 15 million people (National Credit Regulator, 2011). This is in addition to about three and half million people involved in some or other type of survivalist enterprise activities (National Credit Regulator, 2011). While the importance of large industrial, mining and other enterprises for the growth of the economy cannot be denied, there is ample evidence that the labour absorptive capacity of the small business sector is high. The average capital cost per job created is usually lower than in big business, and its role in technical and other innovation is vital for many of the challenges facing South Africa's economy (National Credit Regulator, 2011). Given South Africa's

legacy of big business domination, constrained competition, and unequal distribution of income and wealth, the small business sector is seen as an important force to alleviate unemployment, which currently stands at 25 percent of the active population (Econometrics, 2013).

The South African government has thus turned to SMEs to solve the unemployment problem. In addition, SMEs play a critical role in equitable income distribution, activating competition, exploiting niche markets (both internally and internationally), enhancing productivity and technical change, and through all of this, stimulating economic development.

An environment conducive to the growth of SMEs is therefore a requirement in Zimbabwe and South Africa and this has given rise to the current study. Essentially, the study explores whether the trade and economic liberalisation reforms implemented in Zimbabwe, have advanced the growth and prosperity of SMEs, and compares Zimbabwe's experience with that of South Africa, with the ultimate aim of highlighting gaps that should be filled and best practices that should be enhanced. This will allow SMEs to fulfil the much sought-after roles of employment creation, poverty alleviation, economic growth, and wealth redistribution.

1.4 Main Research Objective

The overall objective of the study is to determine the influence of trade and economic liberalisation policy reforms introduced in Zimbabwe on the operations of selected manufacturing SMEs in that country, and compare that with South Africa's experiences.

1.4.1 Research sub objectives

- To ascertain the impact of trade and economic liberalisation policy reforms introduced in Zimbabwe on the biographical details of manufacturing SMEs in that country.
- To establish the impact of trade and economic liberalisation policy reforms introduced in Zimbabwe on the turnover, employment figures and wages structure of manufacturing SMEs in that country.
- To establish the impact of trade and economic liberalisation policy reforms introduced in Zimbabwe on the innovations of the manufacturing SMEs in that country.

- To establish the impact of trade and economic liberalisation policy reforms introduced in Zimbabwe on the ownership structure through foreign investment in the manufacturing SMEs in that country and also ascertain how issues related to economic empowerment have been addressed together with foreign ownership.
- To establish the impact of trade and economic liberalisation policy reforms introduced in Zimbabwe on the import and export initiatives of manufacturing SMEs.
- To compare the outcome of the sub-objectives against the experiences of South Africa's manufacturing SME's.

1.5 Significance of the study

The study seeks to investigate the impact of trade and economic liberalisation policy reforms on the operations of SMEs in the manufacturing sector in Zimbabwe, and compare the outcome against the experiences from South Africa's manufacturing SMEs in the period 2000 to 2010. SMEs are important in that they contribute significantly to economic growth through employment creation and this becomes critical if one considers the fact that Zimbabwe and South Africa has noted significant job shedding by established business in recent times.

In South Africa, retailer Pick and Pay laid off about five thousand jobs in 2011 as it prepared for competition from Wal-Mart (The Financial gazette 2013). In 2013 alone, big enterprises such as Pioneer Foods, JD Group, Anglo American Platinum (Amplats) and Pick and Pay all shed significant amount of their labour force, citing depressed business.

The situation is not different in Zimbabwe where established big business units such as Air Zimbabwe, The Cotton Company of Zimbabwe, the National Oil Company of Zimbabwe and Ziscosteel **reduced their staff complements** by as much as 10 percent in the period between 2010 and 2011 (The Financial gazette 2013).

In 2013, a significant number of established companies namely Karina Textiles, David Whitehead, Cairns Foods, Pine Products, PG Safety Glass and Mutare Board and Paper Mills **closed down** due to viability problems, rendering more than ten thousand people jobless (The Financial Gazette, 2013). Numerous studies carried out have concluded that retrenched workers find refuge in the SMEs (Zindiye 2008).

It is of great importance to identify and understand how the SMEs in SADC have been affected by trade and economic liberalisation policy reforms. This is due to SMEs being regarded as the corner stone of the region's economy (Zindiye, 2008). SMEs must be nurtured and supported to ensure their survival, growth and development. This study is of value to the owners and managers of SMEs in the manufacturing sector of Zimbabwe and South Africa as different recommendations will be made to assist SMEs in their long-term development and growth. Furthermore, the study will benefit the governments of the countries under study as they have committed many resources (financial, labour) towards the establishment of SMEs, but their failure rate is still very high (Zindiye, 2008). Hence, the study will make recommendations to decrease the failure rate.

1.6 Scope of the study

The study focuses mainly on the SMEs in the manufacturing sector in Harare (Zimbabwe) and Pretoria (South Africa). It is confined to the period 2000 to 2010. The choice of Harare and Pretoria, the capital cities of Zimbabwe and South Africa respectively, was purely because these are the main economic centres where most manufacturing companies are found. It will be noted that trade liberalisation policy reforms were not initiated at the same time in Zimbabwe and South Africa. In Zimbabwe, the reforms were initiated in 1991 while those in South Africa were initiated in 1994 when the new South African government came into power. However, the impact of the reforms manifested at about the same period.

1.7 Research outline

This study is divided into eight chapters as outlined below:

1.7.1 Chapter One: Introduction to the Research Problem

Chapter one outlines the problem statement which is the foundation of the study. The significance of undertaking the study is highlighted in the chapter. The background to the study as well as specific literature related to the study at hand is discussed. Research objectives and the proposed research methodology are also examined.

1.7.2 Chapter Two: Trade liberalisation reforms and the performance of SMEs

Chapter two provides a critique of the performance of SMEs in the developing world. It addresses issues on whether SMEs have increased their competitiveness, turnover and streamlining of supply chain process after the adoption of trade and economic liberalisation

reforms by host countries. In addition, the chapter also explores changes in SME ownership, as well as technological improvements by SMEs after the adoption of trade and economic liberalisation reforms. Issues on ownership and foreign direct investment (FDI) on SMEs form an integral part of this chapter. In essence, this chapter provides a comprehensive literature review with regard to the objectives of the study.

1.7.3 Chapter Three: Contributions of SMEs to Zimbabwe and South Africa's economies

Chapter three explores the contributions of SMEs in Zimbabwe and South Africa's economies, with the objective of providing an understanding of SMEs operations, challenges, as well as government support measures for this critical sector.

1.7.4 Chapter Four: Impact of trade liberalisation reforms in Zimbabwe and South Africa

Chapter four focuses on the impact of trade liberalisation policy reforms on the broader economies of Zimbabwe and South Africa.

1.7.5 Chapter Five: Research Methodology and Design

The chapter addresses the research methodology and design. Focus is on the organization and design of the questionnaire, the methods of data collection and data analysis techniques employed in the study.

1.7.6 Chapter Six: Analysis of Research Results

The analysis and interpretation of data is presented in the chapter. The study employs frequency tables to depict the findings.

1.7.7 Chapter Seven: Findings and Recommendations

The chapter explores the findings of the study in relation to literature as well as the study objectives. Recommendations to improve the performance of SMEs in the light of the findings are also postulated.

1.7.8 Chapter Eight: Conclusion and Further research areas

This chapter wraps up the entire research highlighting key issues unearthed by the study. The chapter also proffers areas for further research.

1.8. Summary of chapter one

The study seeks to determine the impact of trade liberalisation policy reforms on the operations of manufacturing SMEs in Zimbabwe and compare the outcome to experiences from South African SMEs. By choosing South Africa, the study aims to make comparisons on the impact of trade liberalisation reforms on the SMEs between an upper-middle income economy and a low-middle income economy. The study was motivated by high unemployment figures in Zimbabwe and South Africa (80 percent and 25 percent respectively) and the fact that SMEs have been identified as a panacea in solving the unemployment challenges in the two countries. The study is therefore very significant in that its findings and recommendations can be used to strengthen SMEs in Zimbabwe and South Africa. Strong and vibrant SMEs will in turn be able to absorb more workers, thus reducing unemployment rates in both countries. Given the fact that established business units have disappointed in employment creation, SMEs are the only viable solution for a reduction in unemployment in the two countries. The next chapter reviews the literature of the current study.

CHAPTER TWO

TRADE LIBERALISATION AND THE PERFORMANCE OF SMES

2.1 Introduction

In chapter one, it was noted that the study seeks to determine the impact of trade liberalisation policy reforms on the operations of manufacturing SMEs in Zimbabwe and compare the outcome to experiences from South Africa's SMEs. It was also stressed that Zimbabwe and South Africa have high unemployment figures and this, together with the fact that the governments in the two countries have identified SMEs as a solution to the unemployment challenge, were the push factors to the undertaking of the study.

This chapter explores the rather tricky relationship between the growth and sustenance of SMEs on the one hand and trade liberalisation on the other. The aim of this chapter is to highlight and analyse available literature on whether trade reforms promotes or retard the growth and success of SMEs, with particular emphasis on SMEs in the developing world. The chapter also aims to highlight gaps on existing literature that gave rise to the current study. The main themes addressed in this chapter include the impact of trade liberalisation on the turnover, employment statistics and wages of SMEs; the impact of trade liberalisation on the ability of SMEs to attract Foreign Direct Investment (FDI); the impact of empowerment initiatives on the ability of SMEs to attract foreign investment; impact of trade liberalisation reforms on the ability of SMEs to carry out innovation; and the impact of trade liberalisation on the import and export initiatives of SMEs.

There is consensus among policy makers, economists, and business experts that small and medium enterprises (SMEs) are **drivers** of economic growth (Tambunan, 2011). A healthy SME sector contributes prominently to the economy through creating more employment opportunities, generating higher production volumes, increasing exports and introducing innovation and entrepreneurship skills. The dynamic role of SMEs in developing countries insures them as **engines** through which the growth objectives of developing countries can be achieved (Tambunan, 2011). United Nations Industrial Development Organisation (UNIDO) estimates that SMEs represent over 90 percent of private business and contribute to more than half of employment and of gross domestic product (GDP) in most African countries (UNIDO, 2000).

2.2 Literature review on the impact of trade liberalisation on development of SMEs

2.2.1. Biographical profiles

Gender and business success

It is generally felt that women lag behind men in economic development and this position stems from history where women were disenfranchised and regarded as perpetual minors (Rwigema and Karungu, 1999). In today's world therefore, gender has become a major dimension with which to gauge the extent to which women have been empowered compared to their male counterparts.

Accordance to the 1972 Bureau of Census in the United States of America only 4.6% of all US businesses were women-owned. However, in 1999 there were 9.1 million women-owned businesses, employing 27.5 million workers with reported revenues of almost \$3.6 trillion (Center for Women's Business Research, 2009). From 1997 to 2002, women formed new businesses at twice the national rate (Center for Women's Business Research, 2009). Female entrepreneurs are increasingly prominent as employers, customers, suppliers and competitors in the USA and in the global community, in general (Greene *et al.*, 2003).

The results by the Centre for Women's Business Research were collaborated by a study by Zindiye (2008) in Zimbabwe who noted that most SMEs in Zimbabwe were run and owned by women.

However, the United Nations have maintained that women in Zimbabwe trail behind men on measures of economic empowerment, such as labour force participation, wage equality and representation in senior positions (United Nations, 2008).

Level of education and success in running a business

A study conducted by Kim (in Meng & Liang, 1996) involving entrepreneurs in Singapore disclosed that successful entrepreneurs have higher education levels compared to that of unsuccessful entrepreneurs. According to Kim (in Meng & Liang, 1996), Staw (1991), and Katz (in Holt, 1992), after entering the entrepreneurial world, those with higher levels of education are more successful because university education provides them with knowledge and modern managerial skills, making them more conscious of the reality of the business world and thus in a position to use their learning capability to manage business. Managers with less education than college degree holders might be less financially secure and less able to change their entrepreneurs commonly had trouble relating to authority figures, seemingly

as a result of their having had poor relationships with their fathers. Roberts (1969) found that the founders of high technology companies had at least one college degree and that half held at least a Master of Science degree. Crant (1996) reported that students with higher entrepreneurial intentions “...tended to be ... MBA students rather than undergraduates”. Gasse (1982) reported genders and achievement at school, or social disadvantage, which becomes a driver for later entrepreneurial endeavour. If that is the case, then entrepreneurs with a lower education qualification may, paradoxically, hold values that are more strongly associated with own business success than those held by entrepreneurs with a higher education qualification

Products

Mather (2005) which found that the processing industry is the most important component of South Africa’s manufacturing economy. Small businesses dominate the food processing industry since the sector was deregulated by the South African government in the 1990’s. Deregulation implies the removal of government control from an industry or sector to allow for a free and efficient market place. Mather (2005) concludes that agricultural manufacturing accounts for twenty eight percent of all manufacturing employment, thirty one percent of all manufacturing production, and twenty five percent of the manufacturing sector’s contribution to the gross domestic product of South Africa in the year 2000.

2.2.2 Trade liberalisation and turnover of SMEs

Since the mid-1990s, many studies have estimated the impact of trade liberalisation on economic growth, employment, poverty, income distribution and the survival of local firms. Nonetheless, according to Tambunan (2011), the real impact of trade liberalisation on the global economy remains a much debated and controversial subject.

Theoretically, at an aggregate level, the broad benefits that are generated from international trade reform include the following: improved resource allocation; access to new and better technologies, inputs, and intermediate goods; economies of scale and scope; greater domestic competition; and the availability of favourable growth externalities, such as the transfer of expertise (Falvey and Kim, 1992). Raihan (2008) contends that international trade policy reform works by inducing substitution effects in the production and consumption of goods and services through changes in price.

These factors in turn influence the level and composition of exports and imports. The change of relative price induced by international trade liberalisation causes a more efficient reallocation of resources. Moreover, international trade liberalisation also enables the expansion of economic opportunities by enlarging markets and enhancing knowledge spill over.

Theoretically, trade liberalisation affects individual local firms, positively or negatively, in different ways (Tambunan, 2008). Trade liberalisation leads to an increase of foreign competition that result from the lowering of import tariffs, quotas, and other non-tariff barriers. The increased flows of foreign competition and imported goods to the domestic market are expected to push inefficient, unproductive, or uncompetitive, local firms to improve their competitiveness by eliminating unnecessary cost. The openness of an economy to international trade is also correlated with increasing plant size (e.g. efficiency of scale); particularly as local firms adopt more efficient technologies, management, organizational and production methods.

This argument is in line with general theory that suggests that size is capable of positively affecting firms' export performance (Valodia and Velia, 2004). The new international trade theory posits that market size has a positive impact on economies of scale and that economies of scale provide cost advantages in production, research and development (R&D) activities and marketing efforts.

Export marketing literature, on the other hand, suggests that large enterprises have greater resources to gather information on markets in foreign countries and to deal with the uncertainties that prevail in foreign markets (Wang and Yao, 2002). As a general hypothesis, therefore, it is more likely for large enterprises, instead of SMEs, to become export-oriented firms.

Trade liberalisation could affect the performance of SMEs through lower production costs that result from cheaper imported inputs. Local firms benefit from lower input costs, which improve their price competitiveness and enable them to compete more effectively in both import and export markets.

However, the validity of this hypothesis hinges on two assumptions:

- That other factors determining competitiveness, such as wages (labour costs) and transportation costs are constant; and
- That many local firms are dependent on imported inputs because of the absence of domestic production of these inputs, or that trade liberalisation pushes prices for inputs lower than those produced in the domestic market (Tambunan, 2011).

Trade liberalisation, according to Rodrik (1995), has an influence on the performance of SMEs, through the relative increase of export opportunities. Opening an economy up to international competition not only induces increased efficiency in domestic firms, but also encourages these firms to increase their exports (Rodrik, 1995). This view is generally supported by econometric analyses. However, this theoretical view rests on the assumption that other factors determining the ability of a firm to export, such as production capacity, labour and energy costs and government regulations do not change to become unfavourable for SMEs.

Finally, it is claimed that trade liberalisation leads to the erosion of domestic inputs used by SMEs (Rodrik, 1995). The elimination of export restrictions on unprocessed raw materials is likely to increase the export of goods made from them at the expense of local firms. Theoretically, therefore, if domestic inputs can be sold at better prices abroad than in the domestic market, this would encourage domestic suppliers to sell more abroad than to produce for domestic consumption.

2.2.3. International trade liberalisation and SMEs

i. Tambunan's theory

Tambunan (2011) provides a compelling illustration on the interplay between SMEs and trade liberalisation. If goods and services produced by local firms are less competitive in comparison to those imported from other countries, local firms such as SMEs are likely to be pushed out of the local market. On the other hand, as import tariffs and other non-trade barriers are removed, resulting in cheaper imported inputs than those produced domestically, domestic production costs are likely to decline. There also exists the export-opportunity effect of firms. In this context, local firms accrue greater export opportunities from the imposition of an open economic system.

ii. China, Ghana, Chad and Gabon

A study by Wang and Yao (2002) on the effect of trade liberalisation in China showed that a **gradual** change in the country's trade regime towards liberalisation in the late 1970s led to much more robust SMEs. SMEs not only grew rapidly, but had also added value to the overall Chinese economy.

However, another study by Steel and Webster (1991), which used firm-level data in Ghana, suggests that trade liberalisation squeezes the profits of SMEs as a result of rising input costs, weak domestic demand and increased competition from foreign firms. Similarly, by using firm-level data for the period 1993–96 in Chad and Gabon, Navaretti (2002) finds that the trade reform process, along with the devaluation of the currencies in each country, failed to generate growth for local SMEs. On the contrary, many of these enterprises were found to have suffered from high input costs.

iii. Southern India

In Tamil Nadu, southern India, Tewari and Goebel (2002) carried out research on the competitiveness of local firms and found interesting outcomes. There is a considerable variance among SMEs with respect to their competitiveness. Also, SMEs that are tied to the low end of the market segments in large urban or metro areas appear to be the most vulnerable to cheap import competition from overseas, suggesting that these SMEs are likely to find trade liberalisation to be burdensome.

It was noted that other SMEs that serve similar market niches in rural areas or in small towns do not face the same pressures as their counterparts in urban areas. Their access to intricate, socially embedded distribution networks that link them to rural markets appears to be a source of strength that non-local competitors find too costly to replicate.

iv. Latin America

The experiences of Latin American countries, on the other hand, suggest that international trade liberalisation has ambiguous effects on SMEs in the informal sector. A study carried out by Goldberg and Pavenik (2003) in Colombia, provides indications that liberal trade policies help to expand the capacity of SMEs to compete with imported goods and services.

v.Nigeria

A study done by Obokoh (2008) also provides better insight on the impact of trade and economic liberalisation on the performance of SMEs. The study sought to determine the relationship between the adoption of trade and economic liberalisation policies and the performance of manufacturing SMEs in Nigeria. The results of the study showed that adoption of trade policies had a negative impact on the performance of manufacturing SME in Nigeria. The removal of the subsidy on petroleum and the cut in government expenditures increased the prices of basic products. This in turn reduced aggregate demand due to a fall in real wages, created unemployment and continued depreciation of the naira (Nigerian currency).

The income distribution effect of stabilization policy being market-based did not recognize the attainment of social welfare. Thus, in the process of transforming the high cost of inputs to increase in prices, the rate of inflation increased resulting in the erosion of the purchasing power of consumers. This negatively affected the performance of SMEs.

2.2.4. Summary of findings on influence of trade liberalisation on SME operations

Overall, the empirical evidence discussed above makes clear that international trade liberalisation does matter to SMEs, although there are no definitive conclusions as to whether the removal of all protective measures and the elimination of non-tariff barriers generate positive or negative effects, indirectly or directly, on the development of SMEs. Studies by Obokoh (2008), Valodia and Velia (2004) suggest that trade liberalisation influence negatively on SMEs. On the other hand, studies by Dhah (2008), Goldberg and Pavenik (2003) suggest that the impact of trade liberalisation on SMEs is actually positive. Wang and Yao (2002) on the other hand reckon that the impact of trade liberalisation in China showed that a gradual change in the country's trade regime towards liberalisation in the late 1970s led to much more robust SMEs.

2.2.5 Impact of trade liberalisation on employment statistics and wage bills of SMEs

The effects of trade reforms on employment have been analysed comprehensively in published literature. Baldwin (1995) surveyed the impact of trade liberalisation on employment in OECD countries. That study reached two conclusions; namely, that the output and employment impacts of trade liberalisation have been insignificant in OECD countries,

and that increased imports have negatively impacted employment in low-technology industries such as textiles, clothing, footwear, wood, furniture, food, drinks, and tobacco.

Hoekman and Winters (2005) presented another excellent survey on the impacts of trade reforms on employment. They concluded that trade plays a greater role in explaining labour outcomes than 1990s literature suggests. This can partly be explained by the changing nature of the globalization process, including the role of trade in intermediaries and services. It can also be shown by the recognition of trade as a channel for technological innovation and transfers.

Methodologies used to investigate relationships

The methodologies that most studies have used to investigate these relationships include the factor content approach, the growth accounting approach, and the econometric approach. The *factor content approach* calculates labour quantities that are embodied in a country's imports and exports in various sectors.

If a country's exports have a high ratio of skilled to unskilled labour, then increased exports will reduce the demand for unskilled labour. This technique has been widely used to estimate North–South trade (Wood 1994; Greenaway, Hine, and Wright 1999; Jenkins 2004). Using this method, Wood (1994) argues that import competition from unskilled labour–abundant countries negatively affects low-skilled labour in developed countries.

Generally, however, empirical evidence of this approach shows a modest impact of trade on employment (Krugman 1995; Cortès, Jean, and Pisani-Ferry 1996; Sakurai 2004). In the case of France, Messerlin (1995) concludes that the modest and mostly positive employment effects of foreign trade between 1980 and 1992 depended on macroeconomic factors and policies, as well as the structure of labour and product markets.

A study by Sakurai (2004) in the Japanese manufacturing labour market concludes that increased trade negatively impacts employment, but that the magnitude of these effects is not very large. One of the disadvantages of this approach is that it assumes the labour market to be competitive when, in fact, the labour market is affected by several non-competitive factors, such as state regulations and labour unions.

The other approach, *the growth accounting*, breaks down employment variations into four components associated with growth; namely, domestic demand, exports, imports, and productivity. Empirical studies have shown that labour productivity has been the main element displacing labour, and that international trade has played a modest role in employment changes in the short term (Greenaway, Hine, and Wright 1999).

Examples of this approach can be found in studies by Sen (2002), Jenkins (2004), and Mekong Economics (2002). For example, Sen (2002) points out that, in the case of Bangladesh, the contribution of international trade to total employment growth has been positive, although it was less significant both in absolute and relative terms in the first half of the 1990s than in the second half of the 1980s.

In contrast, employment in Kenya fell in the 1990s, as a result of both import competition and export declines. Both Mekong Economics (2002) and Jenkins (2004) use this method to analyse the employment effects of trade in Vietnam. Jenkins' (2004) study reveals that the net effect of trade was around one hundred thousand new jobs annually. However, the weakness with this approach is the assumption that components of employment change are independent. This assumption is not true, because empirical evidence finds that labour productivity and growth in trade are correlated (Caves and Krepps 1993; Lawrence 1996).

The last approach generally uses *regression models* to quantify the impacts of trade on employment in the context of either a static or dynamic framework. Using a static model, Heo and Park (2008) find that import penetration in Korean manufacturing has positively impacted the job displacement rate; whereas changes in export share negatively influence the displacement rate, implying that exports contribute to job creation, although the elasticity is quite negligible in magnitude.

Milner and Wright (1998) use the Cobb–Douglas production function for Mauritius' industry in a dynamic framework. Their results show that the estimated responses of employment in the exportable sectors increased in the long run in response to trade liberalisation, but that employment was expected to decrease in importable sectors. Fu and Balasubramanyam (2005) also conclude that exports considerably and positively affect employment in China. On the other end, Greenaway, Hine, and Wright (1999) find that trade expansion, in terms of exports and imports, led to a reduction in the level of derived labour demand in the UK.

This exceptional result can be explained by the trade-induced efficiencies in the trade liberalisation and employment in trade-oriented industries. Gaston (1998) indicates that, in Australia, exports strongly and positively affect employment, and that imports profoundly and negatively impact employment. Mouelhi (2007), using Tunisian manufacturing firms' data, shows that the impact of trade liberalisation on labour demand depends on a firm's characteristics. The obtained estimates suggest that trade liberalisation positively affects employment by exporting firms, but negatively affects domestically oriented firms.

This result is somewhat similar to Lee's (2007) results, which indicate that a high import penetration rate negatively affects employment by firms with fewer than 100 workers; but no such evidence exists for firms with more than 100 workers. Nevertheless, other studies have found no significant evidence of the impacts of trade on employment. Turrini (2002), for instance, asserts that trade liberalisation does not significantly change employment or wages in most developing countries.

Economic theory suggests that the impact of trade liberalisation on total employment may work through a number of routes (Taylor and Driffield, 2000). Inward investment generates a straightforward labour demand effect, stemming from an exogenous increase in output. It is alleged that the technology introduced by FDI is highly capital intensive, and therefore may tend to reduce the employment potential of industrialisation (Taylor and Driffield, 2000). The idea that trade liberalisation may in fact bring in technology that is not labour augmenting, but may actually be labour saving may imply an absolute reduction in the overall employment (Nickell and Bell 1996, Pianta and Vivarelli 2000, Taylor and Driffield 2000).

Findings from Tanzania

A study by Mkenda (2005) in Tanzania provides intriguing results. The study sought, among other objectives, to ascertain the *impact of trade liberalisation, investment reforms and privatisation, and public sector reforms on employment within the manufacturing sector*. The results from the study were inconclusive. For instance, the study found that the textile sector was negatively affected in employment terms due to, among other factors, the introduction of low tariffs on imports.

The study noted that the number of textile firms dwindled from an all-time high of thirty five to as low as just two companies at some stage due to factors associated with cheap import.

Whilst the study does not give figures on job losses, it could well be implied that there were massive job losses. The same study also addressed the issue on whether privatization and FDI have improved employment opportunities in Tanzania. The overall outcome was that employment prospects improved owing to FDI and privatisation of state owned enterprises.

The case of the textile sector in Zimbabwe:

According to Mudzonga (2009), the introduction of liberalisation reforms in 1990 saw the textile sector facing serious challenges which led to closure of large players in this sector and resulted in job losses. Hurungo, (2007) cites trade liberalisation of the 1990s and the *Look East Policy* as sources of de-industrialisation in this sector. He argues that the *Look East Policy* had an exacerbating effect that saw an influx of cheap textiles from China leading to the closure of big firms such as David Whitehead (previously owned by LONRHO). The sector was also hit by the expiry of the South Africa-Zimbabwe bilateral agreement in 1996 as well as by the end of the World Trade Organisation (WTO) Agreement on Textiles and Clothing in December 2004.

The Development Policy Research Unit (DPRU) (2000) in its policy brief noted that this sector was indeed a shrinking subsector. For example, in 1991, there were 284 registered clothing companies and 50 textile companies. By the end of 1999 a total of 115 firms in the clothing sector and 6 textile firms had shut down, representing a 44 percent and 12 percent reduction in the number of clothing firms in the respective sub-sectors. The capacity utilisation levels across the industry were low, averaging between 42 and 50 percent at the end of 1999. Similarly there were very low levels of FDI as most companies in the clothing and textile sector were locally owned.

Table 2.1 Job losses in textile and clothing sectors in Zimbabwe during trade liberalisation

<i>Sub-sector</i>	<i>1990</i>	<i>2005</i>	<i>Job losses(1990-2005)</i>
Textiles	24 000	11 522	12 478
Clothing	27 000	17 000	10 000
Total	51 000	28 522	22 478

Source: Hurungo (2007) as adapted in G. Kanyenze (2006:93)

Cheaper Chinese imports have affected the whole textile production and sales chain from cotton growing and yarn production to ginning and clothing manufacture (Maseko,2011). While cheap Chinese clothes are affordable to the majority of the people (an important point

given the declining income level), upmarket departmental stores operating in Zimbabwe, such as Edgars, Barbours, Meikles, Greatermans and Clicks, have been the major victims of stiff competition from the influx of cheap Chinese clothes. Consequently there have been calls by the private sector to reserve the clothing retail sector for local investors (Maseko, 2011).

The impact of trade liberalisation policy reforms on employment within the SME sector is a contested debate. According to the IMANI Trust (1992), trade liberalisation policy reforms resulted to the closure of many SMEs ostensibly because they could not compete with established businesses from outside the country. However, a study by Mpofu (1998), dispute IMANI's findings.

Our results show that out of 531 SMEs, 48 percent (or 238 firms) were formed in 1991 or later. This could indicate that ESAP actually created more opportunities for SMEs and that those firms affected and hence closing down were inefficient, or unable to adapt to a more competitive market. (Mpofu, 1998)

Another study by GEMINI (1994) seemed to support Mpofu's findings. The GEMINI study indicated that the number of SMEs had increased to 942 000 with a 14,4 percent increase in the number of people employed in the period 1991-1994. The growth of the SME sector was driven by an increase in labour supply spawned by retrenchments associated with ESAP (Simpson et al, 2010). The effect of trade liberalisation policy reforms on employment and wages in the general economy and in the specific area of SMEs is therefore a heated debate.

This study thus aims to shed light on that on-going debate, with specific reference to manufacturing SMEs in both Zimbabwe and South Africa. In addition, the study will also explore the impact of trade liberalisation policy reforms on the turnover of manufacturing SMEs, an aspect largely ignored by studies done to date.

Trade liberalisation and wages

The literature on unions and international trade shows that increasing imports and the removal of trade barriers have a negative impact on union wages (MacPherson and Stewart,

1990; Freeman and Katz, 1991; Driffill and van der Poeg, 1995; Gaston and Tefler, 1995). Greater imports increase the product demand elasticity, reduce profits, and lead to wage concessions by unions. Freeman and Katz (1991), for example, use a monopoly union model framework to show that larger price elasticity due to trade (and other factors) implies an inferior union wage-employment trade-off.

Huizinga (1993) shows that in imperfectly competitive product markets, an increase in international competition is likely to increase the product demand elasticity and lead to wage concessions by unions. If trade keeps the elasticity unchanged, but shifts the demand curve downward, the union is also likely to lower wage demands. Therefore, if international competition or other changes reduce the rents appropriated by the firm, it is also likely to reduce the rents enjoyed by workers. The greater the union-non-union wage differential, the higher the response of union wages to changes in market conditions.

In this approach, import liberalisation is likely to affect union wages more than those of their non-union counterparts. The non-union sector is also potentially affected by increasing openness through rent-sharing and union threat effects. However, because the non-union labour market is more competitive, it is unlikely that trade liberalisation impacts upon non-union workers more than on union workers.

Thus, international trade works as a disciplining device, and faced with negative shocks, unions are likely, *ceteris paribus*, to focus more on employment and less on wages. Nevertheless, the wage responses to changes in product demand are likely to depend on the bargaining framework, and on the structure of labour demand and supply. Differences in these fundamental aspects among countries may lead to differences in the responses of unions to trade liberalisation (Huizinga, 1993).

The empirical literature also finds that wages may increase rather than decrease with imports (Partridge, 1993; Blumenfeld and Partridge, 1996). It is argued that it may be due to unions' strategic behaviour. There are at least two models that explain this outcome. Lawrence and Lawrence (1985) examine the hypothesis of "endgame bargaining". An industry facing increasing import competition is suggestive of economic decline, with reduced opportunity to invest in new capital and equipment. Therefore, it is unlikely that this industry can substitute capital for labour, and the union exploits this fact by trying to extract capital's quasi-rents.

Conversely, an industry facing increasing exports may be encouraged to invest in equipment and new plant. In these circumstances, fearing that the industry can adopt more capital-intensive technologies, unions act strategically by moderating their wage demands. Therefore, there is a positive relationship between imports and wages, and a negative relationship between exports and wages. Grossman (1984) examines the union wage response to increased international competition in a partial equilibrium model of monopoly union. Unions determine wage demands in a median voter member framework. He assumes that union members are subject to seniority lay off, which has two offsetting impacts on union wages caused by increase in import competition.

Higher import competition reduces the probability of employment, which leads unions to focus on lower wages, since some of their members will have a higher probability of being laid off. On the other hand, increased import competition reduces unions' employment and forces the least senior employee to be laid off. The "new" median voter will have a higher preference for wages than the "old" median voter.

The weight of these two factors depends on the elasticity of labour demand, which depends on the industry technology and factor substitution possibilities. The outcome of these two forces will determine the response of unions to import competition. The net effect is ambiguous in general, but the model shows that in the case of a constant elasticity of labour demand, union wages are unresponsive to international competition.

Although very interesting, the theoretical literature does not shed light on the critical topic of the net effect of trade on the wage structure through the union channel. Since trade liberalisation does not affect industries on the same way, the overall impact of unions on wages based on disaggregated industry level data may be ambiguous.

2.2.6 Summary of literature reviewed on impact of trade liberalisation on wage bills, employment statistics and turnover of SMEs.

From the literature, there is no consensus on the impact of trade liberalisation reforms on wages, employment and turnover of SMEs. Ghose (2000) shows that, in the case of industrialised countries, growth of manufactured imports from developing countries, has a small adverse effect on manufacturing employment but virtually no effect on wages. However, in case of developing countries that have emerged as important exporters of

manufactures to industrialised countries a growth in trade has a large positive effect on manufacturing employment and wages. Focusing on short-run effects on labour markets, Greenaway, Hine and Wright (2000) find a considerable impact of international trade on wages in the United Kingdom (UK).

Trade competition from South- East Asian Newly Industrialized Countries (NIC) appears to have increased wage inequality (Greenaway, Hine and Wright (2000). Goldar (2000) finds acceleration in employment growth attributed to trade liberalisation. According to Goldar (2000), the employment elasticity for aggregate manufacturing increased from 0.26 in the pre reform period (1973-74 to 1989-90) to 0.33 in the post reform period (1990-91 to 1997-98). He also finds a significant increase in the employment elasticity in the export-oriented industries group.

The impact of trade liberalisation reforms on SMEs in Zimbabwe remains a contested debate among academics. According to Mudzonga (2009), the introduction of liberalisation reforms in 1990 saw the textile sector facing serious challenges that led to closure of large players in this sector and resulted in job losses. This outcome is also supported by the findings from IMANI Trust (1992). On the other hand, a study by Mpofu (1998) concluded that trade liberalisation actually led to the establishment of new SMEs, hence creating employment opportunities.

2.3 Impact of trade liberalisation on the ability of SMEs to carry out innovation.

Innovation is the introduction of new ideas, goods, services, and practices, which are intended to be useful (Glass, 2001). An essential element for innovation is its application in a commercially successful way (Glass, 2001). Innovation has punctuated and changed human history. There are broadly two types of innovation, namely product and process innovation. Product innovation refers to work done to design or improve a product. Process innovations aim to make the manufacturing process more efficient through automation, simplification, better process control, and lower energy consumption.

Normally, product and process innovations are interdependent. In the early stages of the product life cycle, product innovations tend to be rapid. As the rate of product innovation decreases, it is common to observe a faster rate of process innovation. The relative importance of product and process innovation depends on the nature of the industry (National Academy of Engineering, 1995).

Specifics of Technology Transfer and the Innovation Process

Technology transfer is a key factor strongly affecting economic growth both in the short and long term (UNIDO, 2000). The access to technology and its usage in economic processes to large extent decides as to the competitive position in the international labour division. Structural changes of the entire economy are almost not possible without an effective technology transfer and well-defined country's innovation system.

According to Warsaw School of Economics (2002), these two factors led the spectacular improvement in competitiveness and economic success of the newly industrialised Asian Pacific economies. Technology transfer is a complicated process, which includes several closely related elements like technology (embodied and disembodied; e.g. subparts / machines, patents / licences) and knowledge (e.g. organisational behaviour). In most cases, transfer technology is being understood in parallel to innovation where the latter embodies of specific knowledge of a product or service.

Technology transfer can be defined as a flow between technology owner/holder and technology buyer/ user (UNCTAD, 2001). It enables closing the gap in access to particular technology in different ways: buying, renting, lending, or licensing. An important element strictly related to technology transfer is the technology commercialisation – which is a technology transfer with a special emphasis on practical usage of R&D efforts (e.g. closing a licence agreement with patent owner to exploit technology of a specific product design).

The scale of diffusion of the transferred technology depends to a large extent on existing technology infrastructure – e.g. the resources of the technical science and R&D potential, industrial production advancement, technology start-ups and technology transfer financing systems. Added to this are instruments encouraging culture innovation across the country, the scale of the country's openness to foreign competition and production co-operation (at the beginning mainly transnational corporation's channels).

Economic level is one of most important factors determining the intensity of technology transfer. In effect, the diversity in the level of quality and quantity of labour factors will be strictly correlated with the potential flow of technology. Technology transfer can have both a vertical and horizontal character.

The vertical technology flow is taking place across particular stages of added value creation in the value chain. Horizontal technology transfer is conducted in similar production stages or economic environments typical in the diffusion process (UNIDO, 2000):

Table 2.2. Vertical and horizontal technology flows

Vertical and horizontal technology flows
i. Vertical technology flow
R&D → implementation → production process → distribution → final buyer
ii. Horizontal technology flow
laboratory ↔ laboratory; factory ↔ factory; country ↔ country

Source: UNIDO (2000:119)

Technology transfer channels can transfer goods, services and production factors (workforce, technology, capital). In this context, investments related to technology transfer are analysed as investments directly related to production (e.g. machinery) and partially related to production (e.g. distribution equipment).

Innovation and Technology Supply:

Technology supply depends largely on innovation the capabilities of a particular country or the so-called innovation potential. Innovation should be broadly understood as everything, which is considered as a **new** (UNIDO, 2000). Innovation is the result of the practical primary usage of certain idea. It is embodied in a range of processes or products; we can thus distinguish process and product innovations. The innovation potential of particular country is the sum of specific macro and microeconomic factors, which encourage the process of innovation like income per capita, R&D, technology infrastructure.

Technology transfer indicators can be based on the foreign trade specifics and international competitiveness. In this context, they can include e.g. prices in export, shares in appropriate international markets etc. One of the most often used indicators as to the intensity of technology transfer is the technology gap, which can be understood as difference between knowledge and capabilities of a particular country. There are several possibilities to define and measure the technology gap, which include comparisons of industries' labour productivity and capital intensities.

Technology and Economic Growth - Theoretical Issues

Establishing the relationship between economic growth and innovation is a complex issue. An interesting basis could be existing international trade and capital flow theories, assuming differentiation of production factors supply (workforce, capital, and technology) across countries and regions. This can be extended by neo-technology theories like product life cycle theory, technology gap theory and production scale theory. They argue that the cause of foreign trade is possible thanks to existing differences of supply of production factors across countries. In technology gap theory foreign trade is possible thanks to differences in economic development across countries; in production scale theory the gain and competitive share is possible due to high specialisation and decrease of costs per produced unit.

One of the theories, which can be applied in technology transfer analysis, is the Vernon's product life cycle theory. Vernon (1993) argues that reasons for foreign trade are technological advantages, which are embodied in innovations. Because the access to the core technologies is limited, innovations are spreading gradually and differently across countries from country innovator to country imitator (receiving country). One of the reasons for this is that countries differ in the levels of economic development and technology.

Vernon's theory assume time as a factor of gradual evolution – of product (from innovation, growth, maturity to decline); markets (from country innovator to country imitator) and production process (from complexity to standardisation). Dynamics of technology transfer depend also on the strategy of a particular firm innovator. Some firms prefer expansion by technology licensing others through FDI as the most appropriate and safest solution for securing the technology, and to prolong the rent from the exclusivity of ownership.

According to product life cycle theory, production is being moved from the country innovator to country imitator at the product's maturity stage. In the first stage of product development, the production process is being conducted in the country of innovator (because of specifics of supply of production factors and the character of local market demand). In the second, together with diffusion of products, some export activities are established to middle developed countries. In the third, full technology diffusion takes place. Production process simplifies when the innovator fails to resist its oligopolistic position. This often leads to move production to foreign countries in order to find relative cheaper production factors, to ensure better service of foreign markets and to internalise possessed technology.

2.3.1 Relationship between innovation and trade liberalisation.

The relationship between innovation and trade liberalisation is not always clear-cut. This study will explore the relationship on the following dimensions: from a Multi-National Corporation (MNC) perspective, from a tariff-efficiency perspective, from an innovation-employment perspective, and from an innovation-qualification perspective.

Proponents of trade and economic liberalisation assert that such a policy increases innovations and technological progression in the host country. This development is generated in several ways. Trade liberalisation makes it easier for Multi-National Corporations (MNCs) to establish or trade goods in or from the host country. These MNCs are assumed to have skilled manpower and resources to explore new inventions and innovations (Simpson, 2008). The firms in the host country then benefit by a natural process of attrition. Alternatively, trade liberalisation policies open the door for firms in the host country to enter into strategic partnerships with innovative-minded and technologically advanced foreign entities. Firms in the host countries then benefit in both innovation skills and technology transfer (Simpson, 2008).

Griffith, Harrison, and Simpson (2008) studied the effects of trade liberalisation reforms carried out under the EU Single Market Programme (SMP) and found that these reforms have increased product market competition (measured as average markups) and stimulated innovation through increased research and development expenditures. Companies, big and small alike were compelled to carry out innovation as a strategy to fend off increased competition brought by open trade.

According to Glass (2001), by reducing the realized gains from exchange, tariffs reduce the reward to innovation. A tariff induces inefficiency and so kills off the spirit to innovate as a competitive tool. In other words, by promoting trade liberalisation, companies have no choice than to carry out innovation (Glass, 2001). Glass likens innovation to a lottery where firms endure a cost for a chance at winning a payoff. A higher investment in innovation yields a higher probability of success, but no level of investment in innovation can guarantee success. A firm just successful in innovation has a one quality level lead over its closest rival (the firm able to produce the next highest quality level of that product).

Bahia (2006) has noted that innovation may actually affect the level of employment in a negative way. Consequently, skilled-labour intensive firms can produce at lower costs and create new products more easily than the non-innovator firms and unskilled labour intensive firms.

Bloom, Draca, and Van Reenen (2009) studied the effect of Chinese import penetration on innovation in European countries. They found evidence of the innovation effect of trade: on the one hand Chinese competition decreases employment and firm chances of survival, and this effect is stronger for low-tech than for high-tech firms. On the other hand, surviving firms tend to innovate more (patenting and R&D) and upgrade their technology (IT intensity).

A study by Melitz (2003) however, provides a different dimension on the relationship between innovation and trade liberalisation. He postulates that trade liberalisation increases labour demand, this bids up wages and the cost of production, thus forcing the least productive firms to exit the market. It is noteworthy to mention that Melitz's analysis is based on an assumption of firms operating under a monopolistic competition, where a larger number of competitors do not affect the elasticity of demand.

2.3.2 Summary of trade liberalisation impact on SMEs ability to carry out innovation.

Trade liberalisation promotes innovation owing to increased competition. Businesses are forced to carry out innovation as a **strategy** to survive from the increased competitive pressures. This is the view advanced by Griffith, Harrison, and Simpson (2008). According to Glass (2001) tariff induces inefficiency and so kills off the spirit to innovate as a competitive tool. Trade liberalisation thus promotes innovation. However, a study by Melitz (2003) produced different results from those outlined above. Melitz reckons that trade liberalisation will increase demand for labour and **bid up wages**. The rise in wages costs will be financed from the research and development budget, decreasing funds available for innovation.

2.4 Impact of trade liberalisation on the ability of SMEs to attract FDI

Foreign direct investment (FDI) is defined as an investment involving a long-term relationship and reflecting a lasting interest and control (a share of 10 percent plus) by a resident entity in one economy (foreign direct investor) into an enterprise resident in an economy other than that of foreign direct investor (Lahiri, 2008; OECD, 1996). FDI implies

that the investor exerts a significant influence on the management of the enterprise, resident in the other economy (UNCTAD, 2007).

Zhang, Zhang, and Liu (2007) conclude that during the procedure of trade liberalisation, emerging economies have been spectacular targets for FDI because of their potential business opportunities. Multinational Corporations (MNCs) making less profits in developed countries, nowadays turn to emerging markets to enhance performance and increase market share. FDI is a set of economic activities or operations carried out in host country by firms controlled or partly controlled by firms in some other country. These activities include production, employment, sales, the purchase, and use of intermediate goods and fixed capital (Lipsey, 2002).

Zhang et al (2007) asserts that multinational companies may enter emerging markets in many diverse ways, including exports, licensing and direct investment. Banga (2003) describes three schools of thought that attempt to explain the emergence of FDI. The market imperfections hypothesis, which postulates that FDI is the direct result of an imperfect global market, the internalisation theory, where FDI takes place as multinationals replace external markets with more efficient internal ones; and the eclectic approach to international production, where FDI emerges due to ownership, internalisation and location advantages.

It is argued that inward FDI can help improve the economic prospects of most African countries in several ways (Lipsey, 2002). FDI, being a non-debt source of development finance, helps to fund investment projects in the economy. FDI increases the level of technical progress in the host country, which, in turn, can play a decisive role in the process of economic development. Technology transferred to developing countries via FDI tends to be newer than that transferred via licensing (Findlay, 1978).

Mansfield and Romeo (2004) stress that, while no significant intra-industry (horizontal) spillovers exist, there are indeed significant inter-industry (vertical) technology spillovers from foreign firms in upstream sectors to local firms in downstream sectors. Results also indicate that technology spillovers may be regional rather than sectoral, suggesting that industrial clustering may speed up the rate of technology diffusion to local firms.

The theoretical literature on the motivation for FDI argues that multinational corporations (MNC) possess intangible firm specific advantages that allow them to compete successfully in a foreign environment. These firm specific advantages include not only technological expertise but also skills related to management, distribution, product design, marketing, and other sources that create value in a modern economy (Vahter, 2004).

From the perspective of a developing country, Gorg and Strobl (2001) argue that transmission of such intangible knowledge through FDI is an important channel through which developing countries can catch-up with the industrialized world. Gorg and Greenaway (2004) go on to add that whatever the source of return to international enterprises, the only way in which indigenous firms can gain from such flows is if knowledge spills over from MNC to domestic enterprises.

2.4.1 Summary of the impact of trade liberalisation on the ability of SMEs to attract Foreign Direct Investment

FDI is a set of economic activities or operations carried out in host country by firms controlled or partly controlled by firms in some other country. These activities include production, employment, sales, the purchase and use of intermediate goods and fixed capital (Lipsey, 2002). Advocates of Foreign Direct Investment, a product of trade liberalisation reforms, argue that there are many benefits for SMEs in host countries. FDI increases the level of technical progress in the host country, which, in turn, can play a decisive role in the process of economic development.

Mansfield and Romeo (2004) stress that, while no significant intra-industry (horizontal) spillovers exist, there are indeed significant inter-industry (vertical) technology spillovers from foreign firms in upstream sectors to local firms in downstream sectors. From the perspective of a developing country, Gorg and Strobl (2001) argue that transmission of such intangible knowledge through FDI is an important channel through which developing countries can catch-up with the industrialized world.

Link between trade liberalisation policy reforms and FDI

FDI is an important component of trade liberalisation. According to Prasad (2003), FDI is a direct product of trade liberalisation. Prasad (2003) notes that FDI is also the least volatile form of capital flows, making countries less vulnerable to sudden stops or reversals of flows

(Kose , 2006). Against this background, many countries consider attracting FDI as an important element for economic development. Many believe that successful implementation of trade liberalisation reforms by the host government is a positive signal to foreign investors as it implies less investment risk (Prasad,2003).

Thus, the progress of trade liberalisation reforms can be an impetus to strong foreign investment flows. A World Bank report on Global Economic Prospects (World Bank, 2008) recognises that FDI can be a powerful channel for the transmission of technology to developing countries by financing new investment, by communication information about technology to domestic affiliates of foreign firms, and by facilitating the diffusion of technology to domestic firms. A research study by Gardiner (2000) shows that a relationship exists between GDP growth rate and FDI inflow. According to Gardiner, high inflows of FDI are associated with higher GDP and high employment prospects in host countries.

A research by Banga (2003) shows that the last two decades have witnessed an extensive growth in FDI flows to developing countries. This has been accompanied by an increase in competition amongst developing countries to attract FDI, resulting in a rise in investment incentives offered by the host governments and removal of restrictions on the operations of foreign firms in their countries. Busse and Hefeker (2007) quantify this increase over the last 25 years-the total FDI into developing countries rose from some US\$4-billion in 1980, to US\$182-billion in 1999 and this increase is attributed to trade liberalisation reforms that were undertaken by host countries.

To what extent has the adoption and implementation of trade liberalisation policy reforms in Zimbabwe and South Africa affected the ability of SMEs to attract FDI?

2.4.2 Impact of economic empowerment policy on SMEs

In Zimbabwe and South Africa, the need for economic empowerment programmes stem from the historical marginalisation and exclusion of Africans in the mainstream economy stemming from the colonial era (Government of Zimbabwe 2010, Government of South Africa 2007). The colonial historical context of the countries in the two countries witnessed a period of protracted economic development and created a human capital that was largely unskilled, uninformed, and restricted from meaningful participation in the economy (Chimhandamba, 2007).

Empowering these previously disadvantaged groups was seen as a way of exposing them to the development pillars enabling them to become agents of economic change while facilitating their escape from abject poverty. The origin, imperative and the need of having empowerment policies in the two countries was based on the notion that an economy can only flourish if it can meet the needs of its citizens and their enterprises in a sustainable and developmental manner (Chimhandamba, 2007).

According to Easterly (2000) the idea behind empowerment programmes in South Africa (and Zimbabwe) is premised on the need to create a strong middle class. A higher share of income for the middle class and lower ethnic divisions are associated with higher growth, as well as with more education, better health, better infrastructure, better economic policies, less political instability, less civil war and ethnic minorities at risk, more social “modernization” and more democracy (Easterly, 2000).

It should be noted that the concept of empowerment to locals is not unique to Zimbabwe and South Africa. In Ghana, the government gazetted that local participation in oil and gas sector must reach 80 percent by 2020. In Angola, locals are mandated to hold 51 percent of the share capital in mining and telecommunication companies and 30 percent in the insurance enterprises. In Kenya, the law requires that at least 20 percent of company shareholding in the telecommunication sector must be taken up by Kenyans and in insurance, white listed companies must reserve at least 25 percent for the locals (Zimbabwe Situation, 2012). The section below addresses the origins, rationale, implementation, and impact of empowerment initiatives in Zimbabwe and South Africa.

Link between trade liberalisation and empowerment

Trade liberalisation policy reforms are associated with opening the economy to foreign competition, as well as increases in exports and increases in FDI. In a sense, trade liberalisation reforms suggest dilution of ownership as host countries invite foreign partners to partake in the host economy. Clearly therefore trade liberalisation policy reforms and empowerment policy are potentially contradictory in context. Trade liberalisation is much more aligned to FDI while empowerment policy stands on the other end. Yet authorities in Zimbabwe and South Africa have adopted both trade liberalisation and empowerment policies. How did such a move affect the operations of SMEs in the two countries?

2.4.3 Empowerment in South Africa

In South Africa, the Black Economic Empowerment (BEE) is an affirmative action policy designed to correct historical imbalances as outlined on table 2.2.

Table 2.3.Objectives of the BEE Act (2003)

<p>Objectives of the BEE Act(2003)</p> <ul style="list-style-type: none">• Promote economic transformation for inclusion of black people in the economy;• Achieve a substantial change in the racial composition of ownership, management structures and in the skilled workforces of existing and new companies;• Increase the extent to which communities, workers, cooperatives and other collective bodies own and manage existing and new companies and increase their access to economic activities, infrastructure and skills training;• Increase the extent to which black women own and manage existing and new enterprises, and increase their access to economic activities, infrastructure and skills training;• Promote investment programmes that lead to broad-based and meaningful participation in the economy by black people in order to achieve sustainable development and general prosperity;• Empower rural and local communities by enabling access to economic activities, land, infrastructure, ownership and skills;• Promote access to finance for black economic empowerment.
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Source: Government of South Africa (2003:97)

To enforce BEE in the private sector, the government has said it will only engage with private companies that comply with BEE whenever: it issues licenses, concessions or other authorisations; procures from the private sector; sells off state-owned enterprises; and enters into public-private partnerships. Besides the ‘stick-like’ policy instruments, the government has set aside finance to support BEE. This support has been targeted at BEE compliant private companies in the form of: grants and incentives; state-facilitated lending; project financing; venture capital; and targeted investment. The operational forms are summed-up in the so-called BEE scorecard.

The scorecard measures the compliance of companies according to seven specific elements of BEE namely:

- Ownership
- Management control
- Employment equity

- Skills development
- Preferential procurement
- Enterprise development
- A residual element

2.4.4 Impact of empowerment (BEE) on FDI in South Africa

According to Veloso Jr. (2008), South Africa has recognised the benefits of FDI inflows, not only from a currency perspective, but also in terms of skills transfers, technology transfers and potential job creation. Notable FDI deals concluded in recent years include that of Vodafone, a United Kingdom based Telecommunication Company which took over Vodacom South Africa after acquiring a controlling stake of 65 percent in Vodacom. In 2011, Wal-Mart Stores, a United States-domiciled retail giant, took over Massmart Holdings in a deal involving \$US2, 4 billion. Fedderke and Romm (2006) assert that the growth impact of FDI is indeed positive for South Africa.

According to the South Africa Reserve Bank (2010), South Africa has been a net recipient of FDI since 1994, with the exception of 2006. From a small flow amounting to US\$10 million in 1993, net FDI inflow in 2009 amounted to US\$5.7 billion and reached a peak of US\$9 billion in 2008. While it varies across years, at least in 2008 and 2009, FDI flows accounted for 10 to 15 percent of gross capital formation. An analysis of FDI flows between 1994 and 2005 shows that they were concentrated in three sectors, financial services, accounting for 34 percent, followed by mining and manufacturing, at 30 and 28 percent, respectively. The bulk of FDI to South Africa (about 86 percent) comes from Europe with the United Kingdom as the dominant source of investment. In the Sub-Saharan African context, over the period 2005-2009, South Africa has been amongst the top three recipients of FDI along with Angola and Nigeria accounting for about 10 percent of FDI flowing to the region.

A document by Empowerdex (2005) observes that despite the apparent perceived negativity surrounding BEE and its perceived negative effects on FDI, BEE has made headway. Business Map Foundation and the Competition Commission have separately reported that over R21.2 billion worth of deals were concluded through BEE in 2004. According to Ernest and Young, the figures released by the Competition Commission reveal a 300 percent increase from the 2002 figures.

Based on McKinsey's findings (2010) that FDI is stimulated by positive economic conditions and not by regulatory incentives, from a long term perspective, BEE can be seen to contribute to FDI since it promotes skills development, economic participation and the creation of an emerging middle class, which, in turn, supports an entrepreneurial class. All these factors contribute to a positive economic environment in which FDI can flourish. At face value therefore, it would appear that the BEE has not deterred FDI flows into South Africa. However, there is another school of thought that believes the FDI inflows could have been a lot higher, were it not for BEE (Murphy, 2005). In addition, the same school of thought reckons that the full impact of BEE on FDI is yet to be ascertained, as the BEE is still a work in progress (Murphy, 2005).

2.4.5 The Indigenisation and Economic Empowerment Act (IEEA) Zimbabwe

The Indigenisation Economic Empowerment Act 14 of 2007 was gazetted on March 7, 2008 and was signed into law on April 17, 2008. The law provided for all companies with a share capital above US\$ 500 000 operating in Zimbabwe to arrange for 51 percent of their shares or interests therein to be owned by indigenous Zimbabweans. On January 29, 2010, the Government of Zimbabwe published regulations with respect to the Act, thereby rendering the law effective.

The regulations included a requirement for companies operating in Zimbabwe to provide specified information to the Minister of Youth Development, Indigenisation and Empowerment, including an indigenisation implementation plan, by April 15, 2010. The publishing of these regulations marked the finalization of the Act and consequently the real implementation effects of the Act would become observable from the latter date onwards (Government of Zimbabwe, 2008).

In terms of the IEEA, "empowerment" refers to the creation of an environment that enhances the performances of the economic activities of indigenous Zimbabweans into which they would have been introduced or involved through indigenisation. All existing and new businesses with a threshold of US\$ 500 000 are obliged to declare their shareholding status through a prescribed form. Under the empowerment regulations, foreign-owned are required to cede a significant stake to local blacks by 2015 and those failing to comply risk losing their operating licenses (Government of Zimbabwe, 2008).

At least 51 percent of every public company and any other business should be owned by indigenous Zimbabweans (Government of Zimbabwe, 2008). The government also reserved some economic sectors, investment by local Zimbabweans and entry into these sectors requires approval from the government. The legislation also provides preferential procurement from local companies, just like South Africa's BEE preferential procurement provisions. Whilst there appears to be consensus on the principle of empowerment, serious debates have been generated on the timing, and the model of empowerment.

It has been argued that the timing of the empowerment was wrong, as the country was yet to recover from a decade-long regression. What Zimbabwe needs at the moment is FDI so as to rebuild its economy, and the IEEA would lead to investor flight (Robertson, 2013). In addition, there are fears that the empowerment initiative will not benefit the majority but will be enjoyed by a few. The Affirmative Action Group (AAG), one of the empowerment lobby groups, has alleged that empowerment initiatives done thus far have not benefited the common members but has concentrated on the few within the inner circle (The Financial Gazette, 2013).

2.4.6 Impact of empowerment initiatives in Zimbabwe on the attraction of Foreign Direct Investment

According to Block (2013), empowerment policy has negatively affected the ability of Zimbabwean economy to attract foreign direct investment. Robertson (2013) asserts that FDI in Zimbabwe plummeted from an all-time high of 7,3 percent of GDP in 1997 to 2,3 percent of GDP in 2005. The fall was largely attributed to Zimbabwe's strained relations with the international community owing to the fast-track land reform. According to the British ambassador to Zimbabwe, Deborah Bronnet, of the US\$10 billion FDI to SADC in 2010, Zimbabwe got only US\$100 million (1 percent) and she attributes the very low FDI inflows to the adoption of empowerment policies.

A study by Munyeza (2011) suggests that the publication of information with the potential to affect ownership structure of listed firms can influence the affected counters prices on the stock exchange. In his analysis, the publication of the IEEA negatively affected share prices on the Zimbabwe Stock Exchange (ZSE), similar to the losses that were experienced in South Africa when the BEE regulations were prematurely leaked to the media.

Some multinational corporations (MNCs) have closed shop from Zimbabwe, citing alleged disrespect for property rights by the government (The Financial gazette, 2013). Anglo-American Zimbabwe, for example, relocated to South Africa, while Lonrho closed shop (The Financial Gazette, 2013). Such closures have a huge negative impact on employment and the economy.

Some foreign-owned companies, among them Zimplats, Angloplats and Rio Zimbabwe, have decided to freeze new investments in Zimbabwe, citing uncertainty owing to the IEEA. This is devastating news to thousands of young Zimbabweans who would have benefitted from the investments by the mining giants through employment opportunities (The Financial Gazette, 2013).

2.4.7 Summary on the impact of empowerment policy on FDI in Zimbabwe.

Empowerment policies have **negatively** influenced attraction of FDI in Zimbabwe economy (Block 2013, Robertson 2013). This is evidenced by the fact that total FDI inflows have taken a plunge from an all-time high of 7,3 percent of GDP in 1997 to 2,3 percent of GDP in 2005. This is also evidenced by the significant number of MNCs that have closed operations in Zimbabwe as well as some companies that have frozen investment plans.

2.5 Impact of trade liberalisation on import and export initiatives of SMEs

Theoretically, reform towards trade liberalisation could affect (positively or negatively) SMEs in four major ways (Tybout, 2000):

- *By increasing competition*

Lower import tariffs, quotas and other non-tariff barriers have the effect of increasing foreign competition in the domestic market, and this is expected to push inefficient/unproductive local firms to try to improve their productivity by eliminating waste, exploiting external economies of scale and scope, and adopting more innovative technologies, or to shut down. Openness of an economy to international trade is also seen as increasing plant size (i.e. scale efficiency), as local firms adopt efficient technologies, management, organization, and methods of production;

- *By lowering production costs due to cheaper imported inputs*

Local firms benefit from lower input costs, thereby allowing them to compete more effectively in both domestic markets against imports and in export markets;

- *By increasing export opportunities*

Opening up to international competition will not only induce increased efficiency in domestic firms but it will also stimulate their exports;

- *By reducing availability of local inputs*

Eliminating export restrictions on unprocessed raw materials will increase export of the items at the cost of local industries. Thus, in the case of SMEs, it can be expected that international trade liberalisation that increase foreign competition in domestic market will hurt some inefficient or uncompetitive SMEs, while benefit other efficient or competitive SMEs. The efficiency effects of foreign trade liberalisation may be observed in an increase in average plant size among SMEs and (presumably) lower average costs.

The work of Tybout (2000) on the micro dynamic effects of international trade liberalisation on manufacturing firms in developing countries, for instance, consistently shows that increases in import penetration as well as reductions in protection are associated with reductions not increases in plant size. Thus, rather than improve efficiency immediately, an important finding of this study is that liberalisation may work against the (scale) efficiency of SMEs in the short run.

On exports, advocates of trade liberalisation believe that such reforms would stimulate exports for the enterprises in host countries. The export drive is seen from a push and from a pull perspective. Increased domestic competition pushes SMEs to be aggressive on the exports front. On the other hand, trade liberalisation reforms create an environment conducive to strategic partnerships with foreign companies, and these act as a pull factor.

2.5.1. Findings from Indonesia

The case of Indonesia provides a good case study with respect to impact of trade liberalisation reforms on export initiatives of SMEs. A study done by Berry and Levy (1994) found that almost all of the firms sampled exported 90 percent or more of their output and this was attributed to trade liberalisation. It has been widely accepted that for SMEs to

succeed on the export front they must have some way to lower production costs or to increase efficiency and quality of their products.

Berry and Levy (1999) reported that in Indonesia subcontracting arrangements were common among SME exporters in rattan, furniture, and garments. They argue that the growth of export of SMEs in these manufacturing subsectors reflects a rapidly increasing importance of subcontracting arrangements, mainly with commercial intermediaries.

2.5.2. Case study from Zimbabwe

In Zimbabwe Mpofu's study (1998) provides some exciting insights. His study observed that 64 percent of the respondents did not import any of their raw material requirements or finished products. SMEs, by virtue of their size, found the business of import and export very complicated, which is why they opted to deal with local dealers, albeit at a higher cost (Mpofu, 2008). The study also found that of those companies importing their product needs, half of them import from South Africa while about one fifth import from Botswana. Exporting SMEs were very few in number. Over two thirds of SMEs did not export at all.

2.6 Summary

The chapter sought to determine whether trade liberalisation promote or retard the growth of SMEs. From the literature reviewed, there appears to be no firm conclusion. There is no conclusion on the effect of trade and economic liberalisation policy reforms on turnover, employment and wages on SMEs. South Africa and Zimbabwe have embarked on empowerment initiatives. However, the effect of such empowerment initiatives on FDI inflows is mostly negative. In Zimbabwe, preliminary observations suggest that empowerment do scare away FDI. The impact of trade liberalisation policy reforms on technological innovation ability of SMEs is also negative in both countries. Literature reviewed suggests that trade liberalisation did not improve the import and export initiatives of SMEs in both Zimbabwe and South Africa, although the magnitude differed. The next chapter analyses the contribution of SMEs to the economies of Zimbabwe and South Africa.

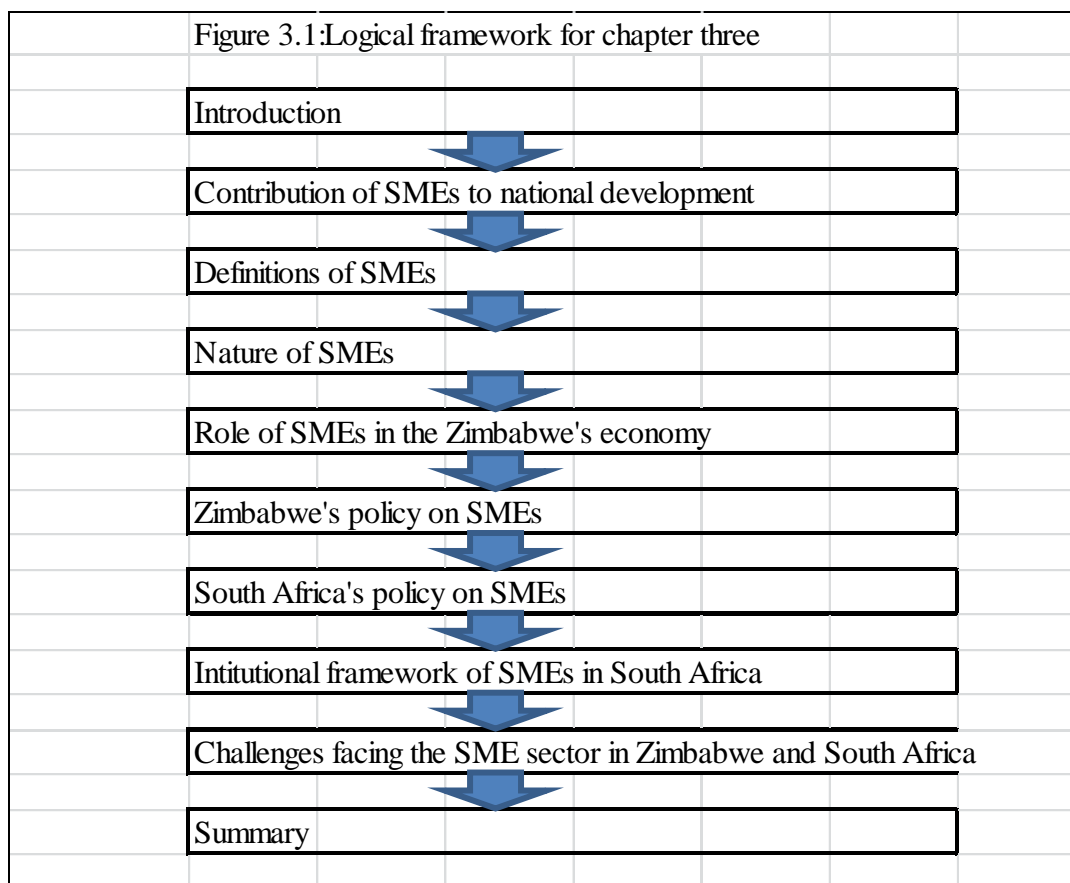
CHAPTER THREE

CONTRIBUTION OF SMES IN ZIMBABWE AND SOUTH AFRICA'S ECONOMIES

3.1 Introduction.

Chapter two reviewed literature with the objective of determining whether trade liberalisation promote or retard the growth of SMEs. From the literature reviewed, there appears to be no firm conclusion. There is no conclusion on the effect of trade and economic liberalisation policy reforms on turnover, employment and wages on SMEs. It was noted that South Africa and Zimbabwe have embarked on empowerment initiatives. However, the effect of such empowerment initiatives on FDI inflows is mostly negative. In Zimbabwe, preliminary observations suggest that empowerment do scare away FDI. The impact of trade liberalisation policy reforms on technological innovation ability of SMEs is also negative in both countries.

This chapter explores the contributions of SMEs in Zimbabwe and South Africa's economies, with the objective of providing an understanding of SMEs operations, challenges, as well as government support measures for this critical sector. Focal areas covered in this chapter include the following: contributions of SMEs to national development in general, definition of SMEs according to Zimbabwe, South Africa and internationally; role of SMEs in Zimbabwe's economy, government support measures for SMEs in Zimbabwe, South Africa's policy framework on SMEs, South Africa's support measures for SMEs and challenges impacting on the performance of SMEs in Zimbabwe and South Africa.



3.2 Contributions of SMEs to national development in general

The contribution of SMEs towards growth, job creation, and social progress is valued highly throughout the world, as small business is regarded as an essential element in a successful formula for achieving economic growth (Vosloo, 1994).

The United Nations Industrial Development Organisation (UNIDO) (1999) estimates that SMEs represent over 90 percent of private business, and contribute to more than half of employment and Gross Domestic Product (GDP) in most African countries. A study by the Competition Commission of South Africa (2004), estimated that 99.3 percent of South African businesses were SMEs and that these SMEs accounted for more than half of total employment and more than a third of GDP.

A major reason why SMEs have been receiving increased attention from both scholars and the public press is the growing recognition of the substantial economic and social contributions SMEs bring. The economic contributions include economic growth, maintaining a favourable balance of payments and balance of trade and employment creation

(Bartel and Martin, 1990). Socially, SMEs results in poverty eradication and improved standards of living. SMEs are therefore an essential panacea for improving the standards of living in a society and the stability of a country.

In Zimbabwe, there is a realisation that Small and Medium Enterprises (SMEs) are innovative, flexible and require low start up capital. There is an increased interest in pursuing SMEs as a poverty reduction strategy. According to Nyoni, (2009) SMEs account for the employment of at **least 57 percent** of the productive population in Zimbabwe. The current formal unemployment rate in the country is approximately 80 percent (Robertson, 2013).

This figure is fast increasing due to the shrinkage in the formal sector, subsequent retrenchments, and the outpouring of graduates from tertiary institutions joining employment seekers while the formal sector can only absorb 20 000 graduates or less annually (Robertson, 2013). Robertson (2013) stipulates that with 80 percent formal unemployment and shrinking productivity, few of the two million young people and graduates who turned eighteen years since 2000 found jobs with a regular income, training, advancement, or career prospects.

3.3. Defining SMEs.

SMEs will be defined from a Zimbabwean perspective, a South African perspective, as well as an international perspective. These definitions are aimed at highlighting the similarities and differences of definitions over borders. There are differences that exist in these definitions due to differences in the economic systems of countries and some of the variables used in the description of SMEs worldwide. There are also similarities in the definitions of SMEs, which is mainly due to the importance of the SME sector worldwide.

3.3.1. Zimbabwe's definitions of Small and Medium Enterprises (SMEs).

Zimbabwe's government defines SMEs as a firm that employs not more than 50 people with assets of less than Z\$3.0 million, and acting as a registered entity. Medium enterprises employ between 75 and 100 people with a capital base of between Z\$7 million to Z\$12 million (Government of Zimbabwe, 2000).

The Ministry of Small and Medium Enterprises Development in Zimbabwe (2002) defines SMEs as a registered enterprise with employment levels ranging from 30 to 70 employees. Finally, the Small Enterprises Development Corporation (SEDCO), a government-supported

development agency in Zimbabwe, defines an SME as an enterprise employing not more than 75 people with a fixed asset base not exceeding Z\$500 000 (SEDCO, 2004).

From the above definitions, it is clear that Zimbabwe's definition of SME places a lot of emphasis on the number of employees as well as the capital base.

3.3.2 International definitions of SMEs.

Ayyagari, Beck and Demirguc-Kunt (2003) define SME as formal enterprise, which have a cut-off range of 0-250 employees. According to Quatey (2001), small enterprises in developing countries refer to an enterprise which employ between 5-9 employees while medium enterprise employ between 20-90 employees. The United States of America Small Business Administration (2004) defines an SME as an entity that is independently owned and operated and is not dominant in its field of operation. Finally the European Union (2004) define an SME as a small firm that employ fewer than 50 employees and a medium firm is defined as an enterprise employing less than 250 employees. SME definitions can be broadly categorised into "economic" and "statistical" definitions (see table 3.1).

Table 3.1. Comparison of the economic & statistical definitions of SMEs

<p>Comparison of the economic and the statistical definition of SMEs</p> <p>Under the economic definition, a firm is regarded as small if it meets the following three criteria:</p> <ul style="list-style-type: none"> • It has a relatively small share of their market place; • It is managed by owners, or part owners, in a personalised way and not through the medium of a formalised management structure; and • It is independent in that it is not part of a larger enterprise. <p>The "statistical" definition, on the other hand, is used in three main areas:</p> <ul style="list-style-type: none"> • quantifying the size of the small firm sector and its contribution to GDP, employment and exports; • comparing the extent to which the small firm sector's economic contribution has changed over time; and • in a cross country comparison of the small firms' economic contribution.
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Source: UNIDO (2003:145)

These definitions, however, have a number of weaknesses. For example, the economic definition, which states that a small business is managed by its owners or part owners in a

personalised way, and not through the medium of a formal management structure, is incompatible with the statistical definition of a small manufacturing firm that puts the upper limit to 200 employees. According to UNIDO, the definition of SMEs is a significant issue for policy development and implementation and depends primarily on the purpose of the classification. For the purposes of policy development, United Nations Industrial Development Organisation (UNIDO) generally advises countries to take into account the quantitative and qualitative dimensions.

The abbreviation "SME" occurs commonly in the European Union (EU) and in international organisations such as the World Bank (WB), the United Nations (UN) and the World Trade Organisation (WTO). The term "small and medium businesses" or "SMBs" is predominantly used in the USA. In South Africa, the term mostly used is "SMME" for small, medium and micro-enterprises. Elsewhere in Africa, the term MSME is used for micro, small and medium enterprises.

3.3.3 South Africa's definition of SMEs

Like other countries, the issue of what constitutes a small or medium enterprise is a major concern in South Africa. Various authors have given different definitions to this category of business. A common definition of SMEs includes registered businesses with less than 250 employees (IFC, 2009). In practice, SMEs are defined in a number of different ways, generally with reference to either the number of employees or to turnover bands (or a combination of both, as in the National Small Business Act 1996, which also allows for variations according to industry sector).

The definition of SMEs by size is necessary, but it is not sufficient for an understanding of a sector where the realities are not only complex, but also dynamic. In South Africa, a 'small business' is officially defined in section one of the National Small Business Act of 1996 as amended by the National Small Business Amendment Acts of 2003 and 2004 (NSB Act) as:

“... a separate and distinct business entity, including co-operative enterprises and non-governmental organisations, managed by one owner or more which, including its branches or subsidiaries, if any, is predominantly carried on in any sector or sub sector of the economy mentioned in Column I of the Schedule 14... ”.

The NSB Act further categories small businesses in South Africa into distinct groups, namely, survivalist, micro, very small, small and medium, hence the use of the term “SMME” for small, medium and micro-enterprises. However, the terms ‘SMME’ and ‘SME’ are used interchangeably in South Africa. The SME definition uses the number of employees (the most common mode of definition) per enterprise size category combined with the annual turnover categories, the gross assets excluding fixed property. (see table 3.2)

Table 3.2: Broad definitions of SMMEs according to the National Small Business Act

<i>Enterprise size</i>	<i>Number of employees</i>	<i>Annual Turnover(South African Rand)</i>	<i>Gross Assets, excluding Fixed Assets</i>
Medium	Fewer than 100 to 200, depending on industry	Less than R4 million to 50 million, depending on industry	Less than R2 million to 18 million, depending on industry
Small	Fewer than 50	Less than 2 million to 25 million, depending on industry	Less than R2,5 million to 4 million, depending on industry
Very small	Fewer than 10 to 20, depending on industry	Less than R200 000 to 500 000, depending on industry	Less than R150 000 to 500 000, depending on industry
Micro	Fewer than 5	Less than R150 000	Less than R100 000

Source: National Credit Act, (2011;49)

i. *Survivalist enterprise*: The income generated is less than the minimum income standard or the poverty line. This category is considered pre-entrepreneurial, and includes hawkers, vendors, and subsistence farmers. In practice, survivalist enterprises are often categorized as part of the micro-enterprise sector.

ii. *Micro-enterprise*: The turnover is less than the value added tax (VAT) registration limit (that is, R150, 000 per year). These enterprises usually lack formality in terms of registration. They include, for example, *spaza* shops, minibus taxis, and household industries. They employ no more than five people.

iii. *Very small enterprise*: These are enterprises employing fewer than 10 paid employees, except for the mining, electricity, manufacturing, and construction sectors, in which the

figure is 20 employees. These enterprises operate in the formal market and have no access to technology.

iv. *Small enterprise*: The upper limit is 50 employees. Small enterprises are generally more established than very small enterprises and exhibit more complex business practices.

v. *Medium enterprise*: The maximum number of employees is 100 or 200 for the mining, electricity, manufacturing, and construction sectors. These enterprises are often characterised by the decentralisation of power to an additional management layer.

3.4 The nature of SMEs

The term “nature” refers to the essential characteristics and qualities of a person or thing. In this instance, the essential characteristics of SMEs are outlined. Because the economies of countries differ, it is difficult to provide a universally accepted definition of an SME. However, some important characteristics of SMEs can be distinguished.

In developing countries, with a shortage of capital and growing labour surpluses, the following characteristics of SMEs are observed (Cronje, Du Toit, and Motlatla, 2001):

SMEs are generally more labour intensive than larger businesses:

- On average, SMEs generate more direct, and possibly also more indirect, employment opportunities per unit of invested capital. In service industries the capital invested per employment opportunity is even less;
- SMEs are an instrument for utilizing the talents, energy and entrepreneurship of individuals who cannot reach their full potential in large organisations;
- Smaller businesses often flourish by rendering services to a small or restricted market which larger businesses do not find attractive;
- SMEs are a breeding ground for entrepreneurial talent and a testing ground for new industries;
- SMEs make a contribution to the competitiveness of the economy; and
- SMEs create social stability since they cause less damage to the physical environment than larger factories, stimulate personal savings, increase prosperity in rural areas, and enhance the population’s general level of economic participation.

SMEs also offer many opportunities for personal initiative, innovation and the development of new products, services, and techniques. Because of the competition that small enterprises engender, they serve as a cornerstone of free markets. Small businesses also play an important role in the social life of the free-market system as they bring competition in the business environment. This competition eliminates monopolies and encourages free trade, which results in quality products and services being offered to customers (Longenecker *et al.*, 2006).

The small business is a partner to big business and provides products and services that normally cannot be provided by the latter. This they do through special niche markets and the niche might consist of a uniquely specialised service or product, or it may be focused on serving a particular geographical area. By finding a special niche, a small business may avoid intense competition from big business. A small business gives an entrepreneur an opportunity to enter the business world. Sometimes a small business is the only provider of necessary products and services in thinly populated and small markets (Longenecker *et al.*, 2006).

SMEs are important worldwide and their contributions are being recognised globally. The influence of SMEs on the economy is of major importance. In addition to their key role as providers of employment, they initiate technological innovation, play a role in the production of new products and the establishment of new businesses, and support large businesses as suppliers and subcontractors. Small business is important worldwide and the World Bank estimates that one of the strongest factors in the growth of any nation's GNP is the presence of SMEs.

Today, widespread efforts are being made in almost all nations to encourage the development of SMEs. Governmental efforts range from small contributions of capital or time, to large, multi-dimensional programs that cross multiple national boundaries. For these reasons, small businesses deserve much more attention, especially with regard to management education (Cronje *et al.*, 2001). It is against this background that the role of SMEs in the Zimbabwean economy is covered.

3.5 The role of SMEs in Zimbabwe's economy

In recent years, there has been increasing awareness by governments in the developing world of the role played by SMEs and their contribution to the economy. The importance of the

small business sector is also recognised internationally in terms of its contribution to employment creation, GDP, and innovation. In the Zimbabwe situation, the development of the small business sector is regarded as crucial for the achievement of broader development objectives. These objectives include poverty alleviation, spreading employment to rural areas, improving the situation of women, and increasing indigenous ownership of investment in the economy (Nyoni, 2002). A discussion of the contribution of the SME sector to the Zimbabwean economy follows below.

3.5.1 SMEs create employment opportunities

Since the opportunities on formal employment are shrinking globally, there is a need to turn the focus to the SME sector as the potential for investment and for making a meaningful contribution to employment generation. As conventional sources of employment are shrinking, formal employment opportunities are becoming increasingly limited in Zimbabwe. The medium term experience in the economy has been that investment levels are not sufficient to generate employment for the 300 000 graduates in Zimbabwe on an annual basis (Nyoni, 2009; Rwafa, 2006).

The lack of employment opportunities in Zimbabwe turns the focus on the SME sector as the potential for investment and for making a meaningful and substantial contribution to employment generation. As the primary employment-creating sector of the Zimbabwean economy, small businesses are responsible for the livelihood of millions of Zimbabweans as they employ the largest number of people, which result in them having disposable income. The availability of disposable income will therefore enable people to purchase goods and services, which they need for their day-to-day survival (Nyoni, 2002; Ndlovu and Ngwenya, 2003).

3.5.2 Contribution of the SME sector to the economy

In the Zimbabwean context, there is increasing awareness within all sectors that large projects are less likely to generate the requisite employment opportunities, given the high capital-intensity of employment creation (Zindiye, 2008). Experience in Zimbabwe, as is the case globally, has shown that SMEs are more flexible and responsive to changes in the market. They require relatively less capital, and therefore have the potential to generate significant levels of sustainable employment for skilled and semi-skilled labour (Ndlovu, 2004).(see table 3.3)

Table 3.3: Potential benefits of SME development

Potential benefits of SME development (Nyoni,2008)

- Mobilising and stimulating the vast potential for entrepreneurship;
- Facilitating a wide economic base and the creation of wealth;
- Increasing the nation's wealth through fuller utilisation of all the country's human resource capabilities;
- Developing an economic structure that is self-sustaining with a high degree of sectoral linkages; and
- Increasing indigenous ownership of investment in the economy.

Source: Nyoni (2008:129)

The Zimbabwean government has identified SMEs as the engine for national growth and a vehicle for economic development since SMEs contribute more than 50 percent of the GDP of the country. This is the result of a macro-economic meltdown experienced by the country. In the past 12 years, Zimbabwe experienced a 50 percent decline in economic growth, 60 percent closure in factories, an 80 percent formal unemployment rate, and a near 100 percent decline in foreign currency reserves (Zindiye, 2008).

Inevitably, this has led to an increase in informal trading, with each and every empty space in urban areas transformed to a flea market, fruit vendor, and carpentry or iron craft workshop. Zimbabwean craft ware has found its way to top galleries from Cape Town to Cologne, all through the ingenious creativity of SMEs (Ngwenya, 2006). SMEs play an important role in economic growth, social development, and overall poverty eradication.

Economic growth is achieved through the establishment of successful entrepreneurial ventures. These ventures will create employment opportunities for the people in the society in which they will be operating. Employment opportunities will result in people having disposable income, which leads to the demand of goods and services and ultimately purchase of the commodities in demand. Disposable income will lead to improved standards of living and will result in the reduction of poverty levels in the country (Chuma-Mkandawire, 2004). The SME sector in Zimbabwe is also a major role player in national development, employment creation, uplifting of the standards of living for urbanites, as well as the promotion of urban economies. This has been necessitated by rural-urban migration, which

has resulted in many people migrating to urban areas. Due to SMEs diversity in nature, character, and business exploits, SMEs have become a vehicle for economic emancipation and sustainable development.

As a result, local authorities have taken a firm stance in implementing government policy to stimulate SME growth, which will ultimately result in economic growth (Simbi, 2004). To accelerate growth and reduce poverty, the World Bank Group and other international aid agencies provide targeted assistance to SMEs in developing economies. For example, the World Bank Group approved more than \$10 billion in SME support programmes over the last decade, including \$1.5 billion in 2002 (Beck, Demirguc-Kunt and Levine, 2003).

The pro-SME policy of the World Bank is based on a number of core arguments. SME advocates argue that SMEs enhance competition and entrepreneurship and hence have external benefits on the economy. These benefits are efficiency, innovation, and aggregate productivity growth.

From this perspective, direct government support of SMEs will help countries exploit the social benefits from greater competition and entrepreneurship. In addition, proponents of SME support frequently claim that SMEs are generally more productive due to their ability to specialize in special-niche areas compared to large firms, but financial, market and other institutional failures impede SME development. Thus, pending financial and institutional improvements, direct government financial support to SMEs can boost economic growth and development. Advocates of SME development also argue that SME expansion boosts employment more than large firm growth because SMEs are more labour intensive.

From this perspective, subsidising SMEs may represent a poverty alleviation tool (Beck *et al.*, 2003). Due to the innovative nature of SMEs, they aid economic development. This is a result of new products and services in the market or in the form of new and improved production methods, which result in the efficient and effective exploitation of opportunities and resources.

The result of innovation and creativity is economic growth. A strong SME sector will therefore result in poverty eradication and improved standards of living. A country will also

be able to compete globally if it has a vibrant SME sector as it is in a position to offer standardised and quality products, which comply with international standards (Gono, 2006).

3.6 Government support measures for the establishment of SMEs in Zimbabwe

A recent study by Maseko and others (2011), in Zimbabwe's Mashonaland Central region, showed that 55 percent of the firms were able to move from generating annual turnover of below \$500 000 into the \$500 000-800 000 range. Only 7 percent of the firms managed to move from the \$500 000 - \$800 000 range to generate above \$800 000 in annual turnover and hence moved into the spectrum of large companies. However, 38 percent witnessed no changes at all in their annual turnover after receiving targeted government support. The overarching point is that government financial intervention is the key to growth and prosperity of SMEs in Zimbabwe, although some challenges still exist.

The major advantages of a small business are its potential for innovation, flexibility, low start-up costs, rapid development, and the distribution of risk (Zindiye, 2008). Small businesses provide a solution to the employment problems facing Zimbabwe, since the majority of people are employed in this sector. This is because large companies are closing down and others are downsizing their operations. Small businesses, however, encounter a cascade of constraints in financing, management capabilities, access to information sources, technology support, marketing and export facilities, and bureaucracy. All of these make it difficult for small businesses to establish themselves and compete in a free market (Nyoni, 2002).

The government of Zimbabwe, through the Ministry of Industry and International Trade, and in conjunction with the Ministry of Youth Development, Gender, and Employment Creation established a Policy Document for the support of Small, Micro and Medium Enterprises (SMMEs), which was approved by Cabinet in July 2002. The document maps out strategies to address various obstacles facing the small business operator. This policy document is aimed at providing a shared vision by all stakeholders in advancing the cause of small business and providing an enabling environment for them to realise their full potential.

In a bid to strengthen the SME sector the government of Zimbabwe has set up an SME bourse to promote their activities so that SMEs will be listed on the Zimbabwe Stock Exchange (ZSE). An SME bourse is a secondary stock exchange aimed at enhancing the

SMEs' financial position, as well as improving SME growth (Gogo, 2007; Hwamiridza, 2007).

In spite of the importance of the SME sector, various barriers to entry have been identified. These barriers range from a hostile regulatory environment, limited access to finance, inadequate management and entrepreneurial skills. The SME policy of the government of Zimbabwe maps out measures to address these constraints. It is recognised that, although various initiatives have been put in place to support the SME sector, there is a need for an integrated coherent policy and strategy for the development of the SME sector in Zimbabwe (Nyoni, 2002).

The main objective of the SME policy is to generate sustainable employment, reduce poverty, to stimulate economic growth and generate foreign currency earnings, thus contributing to the economic well-being of all Zimbabweans. The policy, furthermore, also attempts to define how the government of Zimbabwe, the private sector and other stakeholders can encourage and create an enabling environment for SMEs to grow, and to enhance the contribution of this sector to national development.(see table 3.4)

Table 3.4 Focal points of the Zimbabwean government policy on SMEs

<p>Focal points of the Zimbabwean government policy on SMEs (Nyoni,2002)</p> <ul style="list-style-type: none"> • Ensure the co-ordination of the different policies and programmes at national level; • Provide an appropriate institutional mechanism to facilitate SME development efforts; • Commit SME growth over the long term rather than dependence on any quick-fix solutions; • Set priorities and the appropriate allocation of limited public resources; • Rationalise support programmes; • Co-ordinate resource mobilisation strategies; and • Delegate tasks, responsibilities and accountability.

Source: Nyoni, (2002:79)

Key strategies which deal with the above-mentioned areas of concern that affect the growth and development of SMEs in Zimbabwe include the creation of an enabling legal and regulatory environment, investment promotion, financial assistance, market promotion, technology and infrastructure support, entrepreneurship, management and skills development, targeted support, relationships and partnerships, and institutional reform.

3.7 Zimbabwe's policy on SMEs

With the advent of the trade and economic reforms in 1991, there was a significant change in the Zimbabwean government's attitude towards the private sector. Small enterprise sector was increasingly viewed as an important engine for employment creation and economic growth.

Government support for the SME sector has been repeatedly enunciated in various policy documents such as the following, (Nyoni, 2002):

- Framework for Economic Reform;
- The Zimbabwe Programme for Economic and Social Transformation (ZIMPREST);
and
- The Economic Recovery Programme.

Furthermore, given the SME's high labour-to-capital ratios, the Industrial Policy Framework recognises SMEs and their "need to be encouraged to spread and grow in order to reduce unemployment". Various government support programmes have been put in place for the SME sector. These programmes are supported by institutions such as the Small Enterprise Development Corporation (SEDCO), Zimbabwe Development Bank, Credit Guarantee Company of Zimbabwe, Agricultural Development Bank (Agribank), and the Venture Capital Company of Zimbabwe. However, this support has been piecemeal and uncoordinated (Nyoni, 2002).

Guided by the Zimbabwe Programme of Economic and Social Transformation (ZIMPREST) document, Industry Policy Framework, Economic Recovery Programme, research on the sector and consultations with stakeholders, the Zimbabwean government's SME Policy addresses the areas as listed on table 3.5.

Table 3.5.Areas addressed by the Zimbabwean SMEs policy

<p>According to Nyoni (2002) the Zimbabwean government policy on SMEs addresses the following areas;</p> <ul style="list-style-type: none"> • Enabling Legal and Regulatory Environment; • Investment promotion; • Financial Assistance; • Market Promotion; • Technology and Infrastructure Support; • Provision of Information; • Entrepreneurship, Management and Skills Development; • Targeted Support; • Relationships and Partnerships; and • Institutional Reform.
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Source: Nyoni, (2002:163)

3.8 South Africa's policy on SMEs

South Africa, like Zimbabwe, is a **society of extremes** as demonstrated by the fact that the Gini coefficient places the country at sixty seven percent (Econometrix, 2013). A glittering modern consumer culture sits alongside – and just out of reach of – a society mired in a sea of poverty. South Africa's unemployment malaise, at 25 percent of the workforce, is one of the worst in the world, four times the global rate of 6 percent. More than 16 million people, out of the 50 million population, subsist on social welfare grants. Millions of socially mobilised and predominantly young people stand to live out lives of frustrated aspirations (Econometrix, 2013).

For the past twenty years, the South African Government has invested in a plethora of initiatives aimed at supporting and growing the SME sector. South Africa's small business policy was principally informed by the 1995 "White Paper on national strategy on the development and promotion of small business in South Africa" (Timms, 2011). The 1995 White Paper outlined, among other things, the need for the Government to create an enabling legal framework, facilitate access to information and advice, boost procurement from small firms and to improve access to finance and affordable physical infrastructure.

On the policy front, the NSB Act was passed in 1996, and stipulations pertaining to the sector were built into the Broad Based Black Economic Empowerment (BBBEE) Codes of Good Practice (SBP, 2009). The objectives of the 1995 White Paper now finds practical expression in the Integrated Small Business Development Strategy for 2005 to 2014.

The strategy is based on three pillars:

- Increasing the supply of financial and non-financial support;
- Creating demand for SMME products/services; and
- Reducing regulatory constraints.

3.9 The institutional framework of SMEs in South Africa

The Government's main agencies and funds are distributed across mainly five different departments: the Department of Trade and Industry (the dti); the Department of Economic Development (DED); the Department of Science and Technology (DST); the Presidency; and the Department of Agriculture.

3.9.1 Department of Trade and Industry (DTI)

Small business falls under the Minister of Trade and Industry, and specifically under two of the Department's units; the Enterprise Organisation and the Empowerment and Enterprise Development Division.

The department has various entities under it, namely:

Small Enterprise Development Agency (Seda)

An agency of the dti mandated to support small enterprises, Seda, was formed out of a merger between Ntsika Enterprise Promotion Agency, National Manufacturing Advisory Centre (Namac) and the Community Public Private Partnership Programme (CPPP). The Godisa Trust and the Technology Programmes were integrated into Seda in 2006, becoming Seda Technology Programme (STP).

National Empowerment Fund (NEF)

Set up in 1998 and operational in 2004, the NEF aims to fund black-owned and empower (both big and small) businesses. Between 2003 and March 31 2010, the fund made 208

disbursements of over R1.5 billion. Of these, 156 worth R457 million went to small black-owned businesses or franchisees (through the Imbewu Fund).

National Small Business Advisory Council (NSBAC)

The National Small Business Advisory Council (NSBAC) was launched in 2006 and falls under the DTI and reports to the minister of Trade and Industry. The council has eight members and serves to advise the Minister on ways to boost support to small businesses. The first council collapsed after two years in 1998 amid allegations of mismanagement.

3.9.2 Department of Economic Development

The Department of Economic Development (DED) was set up in 2009 to co-ordinate the South African Government's economic policy. The Department oversees various entities, including:

Khula Finance Limited

The Government's small business finance organisation was set up in 1996 to help fund small businesses. Khula is a wholesale finance institution, which operates across the public and private sectors through a network of channels to supply funding to small business. Khula operates through a network of financial intermediaries across the country. Its channels include South Africa's leading commercial banks, retail financial institutions and specialist funds and joint ventures in which Khula itself is a participant. Its primary aim is to bridge the "funding gap" in the SME market not addressed by commercial financial institutions.

Khula lending comprises of four components.

- Funding for retail financial institutions (RFI);
- Credit guarantee scheme;
- Equity capital; and
- Gearing capital for public and private sector funds, targeting small enterprises in specific sectors.

Industrial Development Corporation (IDC)

The Government's development finance institution was set up in 1940, and the funding of small businesses forms a large part of its mandate. The IDC falls under the Department of Economic Development. The IDC financed 159 small enterprises to the tune of R2.13 billion

(from a total of R10.9 billion) in 2008/2009. This compares to 94 disbursements the year before, valued at R933 million (out of a total of R8.4 billion). One hundred and forty two of the net approvals during 2010 (67 percent of the total number of approvals) were for SMEs. R2.103 million (more than 23 percent of the total value of approvals) was for these SMEs (companies with fewer than 200 employees, turnover less than R51 million, and/or less than R55 million total assets).

SA Micro-finance Apex Fund (Samaf)

The South African Micro-Finance Apex Fund (Samaf) was established to provide access to micro loans and support to the social capital mobilisation. Samaf is a wholesale funding institution tasked to facilitate the provision of affordable access to finance by micro, small and survivalist businesses for growing their own income and asset base. The primary purpose of Samaf is to reduce poverty and unemployment and to extend financial services to reach deeper and broader into the rural and peri-urban areas. As a wholesale institution, Samaf provides micro-finance to financial intermediaries such as Financial Services Cooperatives (FSCs) and MFIs who in turn on-lend to their members and clients. Therefore, anyone who wants to obtain a Samaf-backed loan should first join an FSC or apply to the MFI for a loan. Samaf offers two types of loans via its financial intermediaries, microenterprise loans and development loans.

The Micro-enterprise loan is offered to financial intermediaries who then on-lend to poor people to establish and grow their micro survivalist businesses. To qualify, the loan applicant must earn not more than R3, 500.00 per month. Development loans are aimed at FSCs and MFIs for on-lending to client households earning R1, 500.00 and below per month. Clients can use development loans for paying school fees, medical fees and improvements to the household.

3.9.3 Department of Science and Technology

Technology Innovation Agency (TIA)

This is a new umbrella body set up in 2009 and launched in 2010 for funding innovation. It includes the Tshumisano Trust, which houses the technology transfer stations, the Innovation Fund, the Council for Scientific and Industrial Research (CSIR)'s Advanced Manufacturing Technology Strategy.

3.9.4 The Presidency

National Youth Development Agency (NYDA)

Born in 2009 out of a merger between the National Youth Commission and the Umsobomvu Youth Fund, the NYDA aims to assist the youth with career skills and to help start their own businesses. The NYDA funds training and gives out loans. The Agency disbursed 7,500 micro loans to value of R23 million, and a further R4 million in loans in the 2009/10 financial year.

3.9.5 Department of Agriculture

Micro-Agricultural Financial Institute of South Africa (Mafisa)

The Micro-Agricultural Financial Institute of South Africa (Mafisa) was established to contribute to the working poor's ability to run existing agricultural businesses; to start new ones and be able to develop these into fully commercial operations. Mafisa propels and facilitates the development of financial services intended to uplift very small and micro level farmers, farm workers, farm tenants, small holders, landless emerging farmers and processes, etc.

3.10 Challenges facing the SME sector in Zimbabwe and South Africa

In their quest to improve the standards of living of Zimbabwean and South African citizens, reduce the levels of poverty and unemployment, and significantly contribute to the economic growth and development of their economies, the SME sector faces a number of challenges, which impair their growth and development.

For instance, a lack of transport, inadequate equipment, and insufficient resources to execute planned activities are some of the main challenges being faced by the SME sector in Zimbabwe and South Africa (Masuko and Marufu, 2003). Manufacturing SMEs have trouble in accessing transport facilities to deliver their finished products to the market. Furthermore, the SME sector in both countries is experiencing problems, such as a lack of appropriate management skills to run their business entities, access to loans, inhibiting legal frameworks, access to markets, quality products and registration bureaucracy (Masuko and Marufu, 2003).

SMEs in both countries lack the necessary human resources skills, marketing skills, financial management skills and general management skills to ensure the continued survival of the sector. Insufficient management skills therefore have a negative effect on the growth of the

SME sector notably in Zimbabwe (Nyoni, 2009; Rwafa, 2006). The legal framework is also not favourable towards the establishment of SMEs in both countries. SMEs have limited access to the market since it is dominated by large companies. SMEs are not in a position to produce quality products, which meet international standards due to their inability to purchase all the required raw materials because of financial constraints (Zindiye, 2008).

SMEs are currently also facing challenges such as the limited growth of their businesses and increased competition in the SME sector due to globalisation. The dynamics of small-scale industries have become more challenging. As SMEs are required to offer products to the required international standards, they cannot compete in a globalized world. This is due to the fact that SMEs have limited access to finance, which reduces their ability to procure quality raw materials hence they become less competitive (Nyoni, 2004).

Furthermore, SMEs in Zimbabwe are also experiencing challenges such as bad publicity in the western media. In addition fuel shortages have contributed to the high failure rate of SMEs in the country (Ndlovu, 2004). This negative publicity will result in low foreign direct investments that consequently increase the SMEs' challenge of limited access to sources of finance.

3.11 Summary

SMEs play a critical role because of their potential contributions, not only to employment creation, but also to the improvement of income distribution, poverty alleviation, rural, social, and economic development, and the development of entrepreneurship, especially among women, youth and the less educated. According to Nyoni, (2009) SMEs account for the employment of at **least 57 percent** of the productive population in Zimbabwe. In South Africa, SMEs are regarded as the most viable vehicle of reducing the gap between the rich and poor. South Africa has one of the highest inequalities in the world as demonstrated by the fact that the Gini coefficient places the country at 67 percent (Econometrix, 2013). Support measures for SMEs in both Zimbabwe and South Africa has been piecemeal, fragmented and largely uncoordinated, despite the fact that authorities in both countries regard SMEs as a solution to poverty, unemployment and inequality. Inability to access finance as well as poor organisational skills are the major challenges impacting on the growth of SMEs in Zimbabwe and South Africa. The next chapter focuses on impact of trade liberalisation policy reforms in Zimbabwe and South Africa's economies.

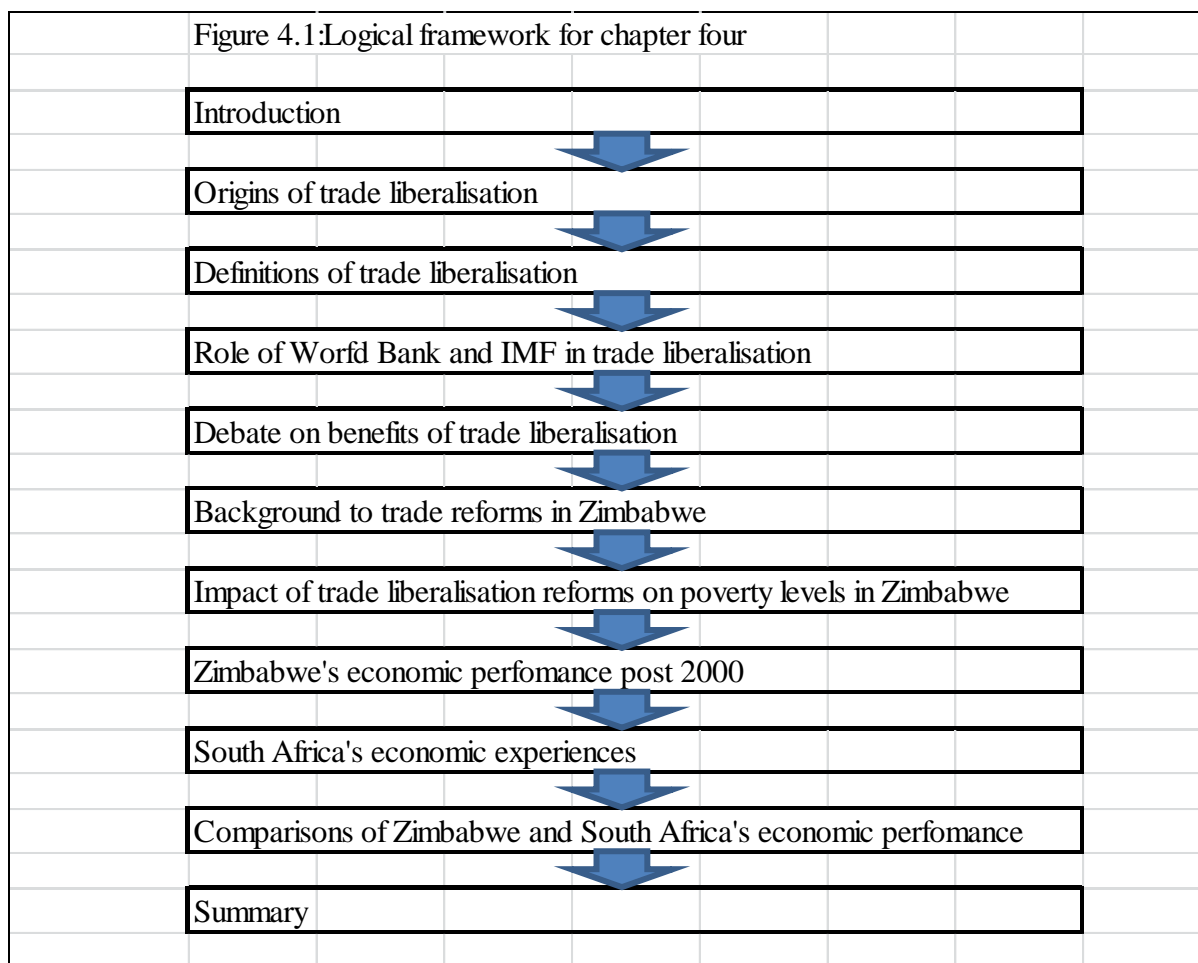
CHAPTER FOUR

IMPACT OF TRADE AND ECONOMIC LIBERALISATION POLICY REFORMS ON ZIMBABWE AND SOUTH AFRICA'S ECONOMIES

4.1 Introduction

The previous chapter focused on the contribution of SMEs on Zimbabwe and South Africa's economies. It was noted that SMEs play a critical in employment creation, income distribution and poverty alleviation, rural, social, and economic development, and the development of entrepreneurship. It was also note that SMEs employ more than half of the productive population in Zimbabwe. However, support measures for SMEs in Zimbabwe and South Africa have been erratic and largely uncoordinated.

This chapter will unpack the implementation as well as the impact of trade liberalisation policy on the broader economies of Zimbabwe and South Africa. Areas covered include the following; origins of trade liberalisation policy reforms, definition of trade liberalisation policy reforms; role of the World Bank and International Monetary Fund (IMF) in trade liberalisation, debate on the benefits of trade liberalisation; background to trade liberalisation reforms in Zimbabwe; implementation of the reforms in Zimbabwe, impact of the reforms on poverty levels in Zimbabwe; South African trade liberalisation experiences; South African economic performance post 2000; impact of reforms on trade, employment and wages; comparison of the economic performance of Zimbabwe and South Africa.



4.2 Origins of trade liberalisation

Since the early 1980s, economic philosophy has changed in favour of market- oriented development and the lack of government intervention, particularly in the flow of international trade. Taking trade policy reform as synonymous with trade liberalisation, the international financial institutions (IFIs) began to put pressure on developing countries for trade liberalisation in the early 1980s as an element of conditionalities under Structural Adjustment Programmes (SAPs) and Stabilization Programmes (SPs) (Todaro, 2000).

Subsequently, trade liberalisation also became a part of conditionalities imposed by some bilateral donors. The orthodox view on trade liberalisation has been propagated further since the late 1980s through the “Washington Consensus” (a collection of international financial institutions based in Washington, USA), with its influential impact on policy reform schemes of many developing countries, particularly in Latin America (Todaro, 2000).

Moreover, there was also pressure on developing countries, through the Doha Round (a trade pact between developed and developing nations) of negotiations under the auspices of the World Trade Organization (WTO), to liberalize their trade regime further. The change in the dominant economic philosophy in favour of trade liberalisation was a reaction to the failure of traditional (across-the-board) import substitution policies of the 1950s-1970s.

The argument was that import liberalisation, together with the lack of government intervention in the economy, would change the incentive structure in favour of exports, private investment would be stimulated, and growth and the diversification of exports and output structure in favour of manufactured goods would follow (Todaro, 2000). Moreover, upgrading of the production and export structure would be facilitated by imported technology and improved skills and knowledge enhanced by trade. Accordingly, the philosophy behind the recommendation for trade liberalisation was that “trade openness”, or free trade, would be conducive to industrialisation and development.

4.3 Definition of trade liberalisation

Various definitions of trade liberalisation have been put forward as indicated on table 1

Table 4.1: Definitions of trade liberalisation

<i>Definition</i>	<i>Source</i>	<i>Description</i>
A	Anonymous (2006)	Trade liberalisation refers to a significant reduction or removal of trade barriers that restrict a country's international trade. These trade barriers include tariffs, non-tariff barriers (such as quotas and other government-imposed regulations), subsidies (such as those on production and exports), and other restrictive trade instruments.
B	Dean (1994)	Trade liberalisation refers to any change in trade policy that will reduce the distortion of trade flows caused by government intervention.
C	Papageorgiou et al (1990)	Trade liberalisation is defined as any act that would make the trade regime more neutral, nearer to a trade system free of government intervention.
D	Winters (2003)	Trade liberalisation is a process that provides more uniformity of policy treatment between different economic activities; and encourages competition in markets. In theory, it is the reduction of the official barriers to trade, which distort the relative prices of tradable and non-tradable goods and those between different tradables.

4.4 Role of the World Bank and International Monetary Fund in trade liberalisation

The work of the World Bank on trade and economic reform has been dominating the field in recent decades. It started with the study on trade policy reform in *World Development Report* (World Bank 1987). The study placed the countries of the East Asia in the category of outward oriented regimes and attributed their success to liberal trade regimes. Despite its shortcomings, the study was instrumental in initiating trade liberalisation packages (Rodriguez and Rodrik (2001).

Among its findings, the study attributes the lack of success of many countries, which followed uniform trade policy regimes to other factors, including the lack of proper implementation (Rodriguez and Rodrik, 2001). This line of argument continued in other empirical studies of the World Bank (1993), including the East Asian Miracle. Generally speaking, it recognized the fact that trade policy regime alone was not sufficient for rapid growth. It appreciated the importance of the institutional factors in success, or failure, of policies. Further, it advocated that interventions were required to enhance investment in physical and human resource capacities. More importantly, it recognized for the first time that economic policies and policy advice must be sensitive to the host nations, if they are to be effective (World Bank, 1993).

4.5 Debate on benefits of trade liberalisation

Over the 1990s the conviction that trade liberalisation or openness was good for growth was fostered by some visible and well-promoted cross-country studies, for example Dollar (1992), Sachs and Warner (1995), Edwards (1998) and Frankel and Romer (1999). These, however, received, and by large deserved, severe criticism from Rodriguez and Rodrik (2001), who argue, inter alia, that their measures of openness are flawed and their econometrics weak.

Establishing an empirical link between liberal trade and growth faces some difficulties (Winters 2003). First, there is the definition of ‘openness’. In the context of policy advice, it is most directly associated with a liberal trade regime (low tariffs, very few non-tariff barriers, etc), but in fact that is rarely the concept used in empirical work. Thus, for example, Dollar’s (1992) results rely heavily on the volatility of the real exchange rate, while Sachs and Warner (1995) combine high tariff and non-tariff measures with high black market exchange rate, socialism and the monopolization of exports to identify non-open economies. Pritchett (1996) shows the trade indicators are only poorly correlated with other indicators of

openness, while Harrison (1996), Harrison and Hanson (1999) and Rodriguez and Rodrik (2001) show that most of Sachs' and Warners' explanatory power comes from the non-trade components of their measure.

There also exists the lingering question of whether trade liberalisation is a cause or effect of economic growth. Does trade liberalisation result *in*, or *from*, economic growth? Is trade liberalisation a cause or effect of economic growth? Frankel and Romer (1999) and Irwin and Tervio (2002) address this question by examining the effects of the component of openness that is independent of economic growth. This is the part of bilateral trade flows that is explained by the genuinely exogenous variables: population, land area, borders, and distances.

This component appears to explain a significant proportion of the differences in income levels and growth performance between countries, and from this, the authors cautiously suggest a general relationship running from increased trade to increased growth. The problem, however, as Rodriguez and Rodrik (2001) and Brock and Durlauf (2001) observe, is that such geographical variables could have effects on growth in their own right, and that this alone could explain the significance of the instrumental estimate of trade constructed out of them.

For example, geography may influence health, endowments, or institutions, any one of which could affect growth. These concerns have, however, been answered by Frankel and Rose (2002) who repeat the instrumental variables approach of Frankel and Romer and show that the basic conclusion is robust to the inclusion of geographical and institutional variables in the growth equation. This suggests that openness does indeed play a role even after allowing for geography.

4.6 Impact of trade liberalisation

The available evidence on the results of across-the-board trade liberalisation by developing countries during recent decades is disappointing, contrary to the claim made by the neo-liberals (Sachs and Warner, 1995). In fact, the results of cross-sectional and time-series studies have revealed no, or little, evidence that there was any statistically significant correlation between trade barriers or openness, and economic growth in recent decades (Rodriguez and Rodrik, 1999; Wacziarg and Welch, 2003).

De-industrialisation has taken place in a large number of countries, including some of those with a high rate of export growth. Moreover, little upgrading took place except for industries which had been dynamic during the import substitution era and near the stages of maturity. More importantly, the United Nations Development Programme (UNDP) (2003) finds a positive correlation between a country's tariff rate and growth rate for the 1990s.

In a case study of eight countries which undertook trade reform, *“with some exceptions, the results of the reform have been disappointing with respect to growth rates and social indicators, especially employment”* (Fernandez de Cordoba and Laird, 2006). The notable exception is India, but the authors cast doubts on the attribution of its performance to trade liberalisation.

In fact, the growth performance of India is attributed by some to its policies and effort in the 1980s (Singh, 2005) and the change in the attitude of the government towards the private sector in the 1980s rather than the “Washington Consensus” type of reform (Rodrik and Subramanian, 2004). At any rate, trade liberalisation by India, like that of Vietnam, was of its own design, and was undertaken selectively and gradually (Chang, 2005).

With respect to the case of low-income countries, there is also some evidence that trade liberalisation has led to de-industrialisation, particularly in Sub-Saharan Africa (Bennel, 1998; Shafaeddin, 1995; Noorbakhsh and Paloni, 2000; Thoburn, 2002; Fernandez de Cordoba and Laird, 2006: and Shafaeddin, 2006.). Rodrik (1997) argues that trade policies have not played an important role in the trade and growth performance of Sub-Saharan Africa; by contrast, external factors have been significant.

According to Stiglitz (2005), stabilization policies did not ensure either growth or stability, and the benefits of trade liberalisation are questionable, inter alia, because:

- Workers move from low-productivity jobs to unemployment instead of moving to high-productivity jobs.
- Capital market liberalisation does not necessarily lead to faster growth and exposes the countries to higher risks;

- Privatization often leads to higher prices of utilities; the adverse social consequences of wrong policies imposed on developing countries have been seen in many countries (Stiglitz, 2005).

4.7 Background to the introduction of trade and economic reforms in Zimbabwe

Between the Unilateral Declaration of Independence (UDI) in 1965 by the then Southern Rhodesia and the creation of independent Zimbabwe in 1980, the country was relatively isolated from the rest of the world. International sanctions against Rhodesia reduced the export-earning capacity of the economy and made imports both harder to source and more expensive.

The de facto import substituting industrialisation thus stimulated was reinforced by the regime's response to sanctions: wide-ranging controls on foreign trade and capital movements, to avert a possible balance of payments crisis. Price controls were subsequently introduced to prevent profiteering by those allocated foreign exchange. This dirigisme continued well after independence; the new government believed itself to be socialist, and the control mechanisms it inherited from the settler regime accorded well with its rhetoric (UNDP, 2008).

In the post-independence boom both the private-sector and the public sectors had deficits; the private-sector as it attempted to invest after sanctions and because of a consumer boom resulting from minimum wages, relaxation of import restrictions and general post-independence euphoria; the public sector as it attempted to implement its expansionary education and health programmes (UNDP,2008).

The large domestic gap, to which this gave rise, could be accommodated by a current account deficit since foreign aid and soft loans were coming in (UNDP, 2008). By the end of 1982, however, government became concerned about the longer-term debt implications of the boom and began to pay more attention to macroeconomic balance (UNDP, 2008). Tightening foreign exchange rationing was the main instrument for doing this. Government also entered into its first stand-by agreement with the International Monetary Fund (IMF), as part of which the dollar was devalued. The Reserve Bank of Zimbabwe subsequently followed a policy of avoiding real appreciation (UNDP, 2008). In many ways, the origins of the moves away from dirigisme can be traced to this point.

4.7.1 Evolution of the reforms

The trade liberalisation measures, commonly referred to as Economic Structural Adjustment Program (ESAP) were first pronounced in a policy statement *Economic Policy Statement: Macroeconomic Adjustment and Trade Liberalisation* (Government of Zimbabwe, 1990), in July 1990. A more elaborated statement, *Zimbabwe: A Framework for Economic Reform 1991-95* (Government of Zimbabwe, 1991) was published in early 1991 as an input into a meeting of donors held in Paris in February that year.

Although the programme was not the result of an agreement between the World Bank and Zimbabwe, it contained most of the ingredients of World Bank SAPs seen elsewhere in Africa: trade liberalisation, budget deficit reduction, deregulation of prices, wages, transport and investment, and commercialization and improved efficiency of parastatals.

The main differences from standard SAPs of the time were that the changes were to be phased in over a longer period than was then usual – five years – and that there was little immediate external funding to support it. It was only after the Paris meeting– some eight months after the announcement of the programme – that there were pledges of financial support from donors.

Much of this support did not in fact represent additional resources but rather took the form of switching previously pledged project aid to faster disbursing programme aid. Although the successor to ESAP – ZIMPREST: *Zimbabwe Programme for Economic and Social Transformation 1996-2000* – continued the same thrust as regards macroeconomic and structural policies, as its name suggests it focused more explicitly on social dimensions: poverty, empowerment, indigenisation, land reform (Government of Zimbabwe, 1998). It had a much broader focus than its predecessor had and can be regarded as more of a development programme than ESAP.

The main objective of the trade and economic policy reforms in Zimbabwe, dubbed Economic Structural Adjustment Program (ESAP) was “trade liberalisation including the abolition of quantitative controls and the reduction and harmonization of tariffs and duties” (Government of Zimbabwe, 1991).(see table 4.2)

Table 4.2.Objectives of the Zimbabwean trade liberalisation reforms

Specific objectives of the trade liberalisation programme included:	
•	Removal of export incentives;
•	Phasing out of import licensing regime;
•	Elimination of foreign currency controls;
•	Removal of surtax and raising of the minimum duty to 10 percent;
•	Reduction of tariffs and replacement of the existing of tariff regime with one with a tariff band ranging from 0-30 percent;
•	Achieving export growth rate of 9 percent per annum over five years from 1991;
•	Removal of price controls;
•	Removal of wage controls;
•	Reduction in government expenditure;
•	A 40 percent devaluation of the Zimbabwean dollar against the United States dollar;
•	A radical restructuring of the various parastatals and other public enterprises

Source: Government of Zimbabwe (1991:29)

4.7.2 Implementation of trade liberalisation in Zimbabwe

Trade liberalisation was implemented faster than any other part of the reform package and faster than envisaged in the initial policy document. The reforms began in 1990 by placing some raw materials on Open General Import Licence (OGIL). These were followed in subsequent years by intermediate inputs and then other imports, so that most goods were on OGIL by 1994, with the exception of a small ‘negative list’ (including textiles and clothing).

Foreign exchange allocation was phased out, leaving tariffs as the only direct protection to local industry (Government of Zimbabwe, 1998). The exchange rate was allowed to depreciate in real terms in order to encourage a shift of resources to the export sector and sustain export competitiveness. In addition, a number of new export incentives were introduced. An export retention scheme (ERS) allowed productive sectors to retain a proportion of their export earnings for the purchase of machinery and raw materials needed to boost output. Initially, mining and agriculture were allowed to retain 5 percent of export earnings with manufacturing, tourism, construction, and road hauliers retaining 7.5 percent (Government of Zimbabwe, 1998).

The proportion of these retentions was increased over time until 1994 when all exporters were allowed 100 percent retention. In parallel with the expansion of the export retention scheme, the foreign exchange market was reformed. Initially the export retentions were for use by the exporter only (Tichagwa and Maramba, 1998).

However, trading was soon permitted, introducing an element of a market determined exchange rate. As the breadth of export earnings was widened, so the amount of transactions at the market rate started to dominate. The dual system was integrated in 1994. Since then the exchange rate has been determined on an interbank market, with the authorities only intervening to support the dollar in conventional ways (Tichagwa and Maramba, 1998).

The trade liberalisation measures did not always provided necessary incentives for export promotion. The government failed to coordinate and sequence trade liberalisation with other policy changes under ESAP (e.g. exchange rate adjustment) (Collier and Gunning, 1992). For example, trade liberalisation was implemented but not fiscal policy reforms. Continued high fiscal deficit and high interest rates hindered industrial expansion and exports. The official development assistance to finance ESAP had the effect of raising the relative prices of non-tradable and thus taxing tradable and exports (Collier and Gunning, 1992).

Trade liberalisation caused a fall in output and employment in the short run (UNDP, 2008). By 1993, GDP had not risen to the level of 1990 (Rattso and Torvik, 1998). A consumption boom led to a substantial increase in imports and a growing trade deficit. The situation was complicated by the severe droughts, which occurred in 1992 and 1994-95. Rattso and Torvik (1998) isolated the effects of trade liberalisation and concluded that ‘the deficit and the de-industrialisation associated with it are the high short-run price of liberalisation, even if the long-run effects maybe favourable’. They believe that trade liberalisation may have created uncertainty, which could well reduce further investment (including FDI) and accelerate the process of de-industrialisation.

4.7.3 Foreign exchange liberalisation

The main institutional change in the foreign exchange market has been the removal of the pre- ESAP system of administered foreign exchange allocations coupled with extensive import licensing. The process was introduced rapidly by increasing the list of imports that could be imported. During the transition, a dual exchange rate system operated. A proportion of foreign exchange was reserved to pay for commitments not yet liberalised — mainly debt servicing and oil imports - and was traded at an official exchange rate by the Reserve Bank of Zimbabwe (Tichagwa and Maramba, 1998).

The other portion was sold to authorized dealers at a rate that was largely market determined. As more transactions were liberalised, so the proportion of foreign exchange exchanged at the official rate declined. In June 1994, the official and the market rate had all but converged, and the system reverted to a single rate, determined in an interbank market.

The Reserve Bank of Zimbabwe intervened only to minimise short-term fluctuations and maintain sufficient reserves. Foreign exchange bureaux were permitted. Most of those established were subsidiaries of other institutions or travel companies. They were initially excluded from the interbank market. This meant that their dealing in foreign currency had to be mediated through an authorized dealer.

However, as the policy on holding foreign currency was liberalised, it appears that bureaux held their own currency balances outside the market. They were formally allowed to trade on the interbank market after the crisis in late 1997, as government saw this as a way to get more currency onto the market. Foreign currency denominated accounts was introduced in late 1993 for private individuals and in 1994 for corporate account holders. Although these were initially introduced on a 'no-questions asked' basis to induce residents holding currency abroad to repatriate it, as requirements to sell foreign exchange earnings to the authorities were relaxed, the foreign currency accounts came to play an important role in the establishment of the interbank market (Government of Zimbabwe, 1998).

Some of these reforms were reversed after the crises in 1997 and 1998 (UNPD, 2008). Corporate foreign currency accounts were closed, with the Reserve Bank of Zimbabwe arguing that they were being used for speculation. Their removal appears to have hurt not only firms that were forced to convert their holdings very rapidly, but also many exporters who were using their foreign currency accounts to smooth out the effects of currency fluctuations (IMF, 2008). In August 1999, they were phased back under the IMF Agreement.

In November 1999, the RBZ introduced some measures to force holders to reduce their balances. Although after 1994 the Reserve Bank of Zimbabwe intervened in the foreign exchange market in orthodox ways to iron out short-run fluctuations in the Zimbabwe dollar, it would appear after 1998 that it resorted to moral suasion with the banks to avoid sharp depreciations. Full dividend remittability was introduced for foreign investors (IMF, 2008). In 1993, private exporters were allowed to source funding requirements for pre- and post-

shipment finance from external banks through their local banks. This offshore borrowing significantly reduced the cost of finance, since lines of credit were available at 1 percent above LIBOR, allowing most exporters access to finance at 6 percent compared to a domestic average acceptance rate of 32 percent.

Although these reforms substantially liberalised the foreign exchange market, the changes were perhaps not as stark as has been painted, since there had been a process of effectively undermining the allocation system since the mid-1980s. Many imports came in under special swap arrangements. Special schemes of export incentives were introduced in the wake of foreign exchange shortages.

4.8 Impact of trade liberalisation reforms on poverty levels in Zimbabwe

Studies by Tichagwa and Maramba (1998) reveal that the removal of price control and subsidies on basic commodities and liberalisation of the economy resulted in increased commodity prices, reduction in access to basic services, retrenchments, and high inflation rates.

The studies by Moyo and Yeros (2005) show that by 1992, the trade deficit had ballooned, inflation had tripled to 42 percent, and monetary authorities were implementing ‘sodo-monetarism’. According to Bond (2008), de-industrialisation had set in between 1991 and 1995, with a new round of downsizing and bankrupts, involving the closure of one-fifth of the clothing sector. Utilization of industrial capacity was further reduced to 65 percent, while by 1998; the contribution of manufacturing to Gross Domestic Product had fallen to 17 percent, down by one-quarter (ZCTU, 1996; UNDP, 2000).

By 1993, real wages had fallen by two-thirds; by 1995, job losses in both public and private sectors amounted to 45, 000; meanwhile the share of wages in the national income had dropped from 64 percent to 40 percent, as against the increase in the profit share from 37 percent to 60 percent (ZCTU, 1996; Kanyenze, 1996). The foregoing serves to illustrate that structural adjustment programs had a devastating effect on Zimbabwe, socially, economically and politically.

In the words of Michael O’Hearney (in Mlambo, 1997);

“The deregulation of price controls and the abolition of subsidies...brought a disastrous impact on many families both in rural and urban areas. Basic commodities like cooking oil, margarine, sugar, bread, maize meal, electricity, and water and transport prices more than tripled over the last year and a half of the implementation of SAPS.”

Thus, the retrenchment of workers and the cut in basic wages further compounded the poverty levels as income levels fell. School enrolment also fell while at the same time health care facilities deteriorated.

Renfrew (in Mlambo, 1997) points out that, *“poverty leads to poor nutrition, poor hygiene and overcrowding, lack of education, lack of sanitation, more deaths in childhood, larger families to compensate and more maternal ill health.”* As Chakawodza (1993) states, Zimbabwe provides an interesting case study, in that the impact of SAPs was further compounded by a severe drought in 1992, resulting in food shortages. This was not the government’s fault, but lack of long-range planning and lack of long-term food security policy, contributing to the economic crisis, yet Zimbabwe was the breadbasket of Southern Africa.

4.9 Zimbabwe's economic performance post-2000

Key development indicators for Zimbabwe from 2000-2007 (see table 4.3)

Table 4.3: Key development indicators for Zimbabwe from 2000-2007.

	2000	2001	2002	2003	2004	2005	2006	2007
Real GDP growth, at 1990 prices	7.3	0.2	5.9	7.4	3.6	4.0	2.5	4.6
Inflation, year on year, percent	55,9	71,9	133,2	365,0	350,0	237,8	1016,7	7982
Exchange rate, daily average for the year	0,1	0,1	0,1	0,8	5,7	78,7	250,0	30 000
Manufacturing annual growth rate, percent	.	-5	-13	-13	-10	4	4	.
Budget deficit/surplus as a percent of GDP	-19,6	-7,5	-2,8	-0,4	-7,7	-5,9	-1,6	-0,1
Net foreign investment, US\$ millions	5	15,3	-0,3	-3,5	-8,7	.	.	.
Exports (volumes), US\$	2533,5	2369,3	2019,0	1855,2	2000,8	1941,7	1915,8	2000,7
Imports (volumes), US\$	2402,2	2232,4	2218,0	2178,6	2413,5	2445,6	2196,7	2323,3
Overall balance of Payments as a percent of GDP	-5	-4,3	-4,7	-1,9	-8,9	-5,7	0,7	.
Total debt, US\$ millions	3996	3940	4182	4330	4320	4404	4717	.

Source: CSO, RBZ, MPSLSW.

4.9.1 The deepening crisis, 1997– 2008

The onset of the economic crisis can be traced to the so-called 'Black Friday' crash of the Zimbabwe dollar on 14 November 1997, which was precipitated by the government's unbudgeted payment of gratuities to war veterans (UNDP, 2008). This was followed in 1998 by Zimbabwe's participation in the conflict in the Democratic Republic of Congo (DRC), which further contributed to the ballooning fiscal deficit (UNDP, 2008).

Following the reversal of reforms undertaken during ESAP and ZIMPREST, government policy became increasingly interventionist as the authorities sought to reverse economic

decline. In several respects, these interventions were designed to boost private sector performance, primarily through the provision of cheap bank finance at negative real interest rates, via a plethora of lending windows operated by the Reserve Bank of Zimbabwe.

Private sector performance was however, constrained by an overvalued exchange rate, severe shortages of foreign exchange, a shrinking domestic market, and a variety of supply-side bottlenecks that included fuel, electric power, imported inputs and skills (IMF, 2008). At the same time, the steep decline of commercial agriculture after 2000 robbed industry of its traditional source of supply of domestic inputs while also contributing to the economy-wide shrinkage of effective demand (USAID, 2008).

On the fiscal front, the government continuously ran large budget deficits, financed mainly through domestic banking sector borrowing (IMF, 2008). By the end of the 1990s, the interest burden on its growing domestic debt had come to exceed total expenditure leading to a debt trap. In real terms, GDP growth stood at 5.8 percent in 1994, fell to 0.2 percent in 1995, mainly due to the 1994/95 drought, and rose to its highest level of the decade at 9.7 percent in 1996 before falling to 1.4 percent in 1997. Zimbabwe's economic decline occurred at precisely the time that other African countries were beginning to achieve reasonable rates of growth (IMF, 2008).

Compared with a cumulative gain of over 40 percent of GDP elsewhere in Africa, Zimbabwe's GDP between 1998 and 2006 declined by *minus* 37 percent (CZI, 2007). Attachment D compares Zimbabwe with a group of ten selected SADC countries with which Zimbabwe had earlier compared favourably in terms of GDP growth. It shows that Zimbabwe dropped to an average *negative* growth for 2000–2006 of 5.7 percent compared to these countries' average positive growth of 4.8 percent during the same period. Even if Angola is removed from this list, because its growth is fuelled by the oil-extractive sector, the remaining eight countries had an annual average growth rate of 4.2 percent over this period, well above that of Zimbabwe (IMF, 2008).

Another feature of Zimbabwe's deep-crisis period was the country's growing fiscal deficit which averaged *minus* 6.5 percent during 2000–2006 (IMF, 2008). However, the fiscal deficit figure is a serious under estimate given quasi-fiscal expenditures not being reflected in the national budget. All other major macroeconomic indicators are in sympathy with the

worsening fiscal account deficit, in particular the current account balance which according to the IMF's figures was also negative throughout this period, averaging *minus* 3.7 percent, while growth rates were also in negative territory throughout the period.

Throughout this period, business confidence was progressively undermined by public allegations and condemnations by the government of private sector involvement in 'profiteering' and 'economic sabotage'. In addition, national policy incoherence and inconsistency made forward planning by the private sector an extremely precarious undertaking (USAID, 2008).

4.9.2 Inflation management

In order to counter the budget debt trap, the government introduced a policy of suppressed interest rates in 2001, which was combined with a fixed exchange rate and a foreign-currency surrender requirement on exporters. This strategy succeeded temporarily in reducing the burden in the budget of interest payments on the national debt, but at huge cost to the economy as a whole (IMF, 2008).

As expected, negative real interest rates encouraged over-consumption and speculation, particularly in the foreign exchange market. The parallel exchange rate depreciated rapidly, creating a lucrative wedge for the few who were able to access foreign currency at the official rate and either trade it directly at its market value or import luxury items for resale on the domestic market. Inflationary pressures had built up from 1997, when it rose from 19 percent in that year to 56 percent by 2000, to over 1,000 percent by 2006, and to an average of 12,563 percent in 2007 (UNDP, 2008).

Zimbabwe's inflation reached hyperinflation levels in June 2007. At its peak in early 2009, inflation hit a world record of over 11.2 million percent year-on-year. Zimbabwe's inflation was fundamentally caused by excess government expenditure, financed by the printing of money in an economy with a real GDP that had been declining for the last nine years (IMF, 2008). Money-supply growth had been completely decoupled from economic growth, the inevitable result being continued and accelerating inflation.

4.9.3 Foreign trade

Throughout the post-independence period, shortages of foreign currency have been a major constraint on economic growth and are largely attributable to weak export performance

(Mlambo, 1997). Average export and import growth (in US dollars) during the 1980–2007 periods were on average higher than in the deepening crisis period of 1997–2007.

At their peak in 1996 and 1997 exports of goods and services reached US\$3,090 million and US\$3,168 million respectively, while imports accounted for US\$3,074 million and US\$3,759 million. Exports had started to peak with a time lag, i.e., at the end of ESAP, thereafter declining to US\$1,694 million in 2004 (US\$2,067 million for imports). Exports per capita declined and stagnated during the 1980s before recovering strongly in the ESAP period, peaking in 1997, but then fell by half from 2000. Per capita exports declined by more than a third compared to 1980 (UNDP, 2008).

As with exports, there was a strong recovery in imports during the liberalisation phase, but by 2007 imports per capita were 35 percent lower than at independence. Even more striking is the weak performance of export volumes. These peaked in 1987, with a 28 percent increase on the figure for 1980. By 1990, volumes had fallen by a third from their record 1987 levels. Exports reached their peak in 1996 in value terms, but volumes were only 4 percent higher than in 1980 (UNDP, 2008).

Other explanations stand out as detailed below:

- Deteriorating competitiveness, as measured in the Global Competitive Index of the World Economic Forum, and the World Bank's Doing Business indicators.
- An overvalued exchange rate during both the control regime period of the 1980s and the 2000–2007 deep crisis periods.
- A significant change in the composition of Zimbabwe's export basket, evidenced by a growing reliance on mining and commodity exports with minimal value addition, and a commensurate decline in exports of manufactured goods, especially medium and high-tech manufactures share in the late 1990s.

4.9.4 Exchange-rate policy

The real effective exchange rate (REER) for the Zimbabwe dollar depreciated from 158 at independence in 1980 to 100 ten years later (World Bank, 2008). During the 1990s, the REER depreciated further to average 84 over the decade, suggesting that despite the exchange rate, it was considerably more competitive during this reform decade than under the

control regime of the 1980s – the more so given the fact that Zimbabwe’s export prices were more favourable than the average for sub-Saharan Africa over the decade. The REER was massively over-valued during the 2001–2003 period and while it returned to competitiveness in 2004/5 as hyperinflation took hold, it escalated to reach an estimated 74 in 2007 (IMF, 2008).

4.9.5 The balance of payments

For most of the pre-crisis period, Zimbabwe ran a visible trade surplus that was more than offset by the deficit on invisible transactions, leaving a current-account deficit averaging 3.7 percent of GDP in the 1980s, 4.3 percent in the 1990s, and 3.7 percent from 2000 to 2006 (World Bank, 2008). Reflecting declining output and growing import dependence, the visible trade balance turned negative in 2002 and remained in the red until 2009 when a government of national unity was born. On their own, such figures are largely meaningless to the extent that they disguise the underlying macroeconomic and institutional factors at work. In the early 1980s, imports were constrained by limited access to foreign currency and highly bureaucratic import-licensing and allocation systems (IMF, 2008).

Liberalisation after 1990 led to a short-term surge in imports (1991–1997) that was followed by a transformation in the structure of imports as the demand for capital goods and intermediates fell away during the crisis period, to be partially replaced by increased food, electricity, fuel and consumer imports (RBZ, 2008). The current account figures also camouflage changing capital account profiles.

In the 1990s, Zimbabwe attracted very little FDI, especially when the US\$450 million Hartley Platinum project is excluded (UNDP, 2008). Bank lending was negative, while foreign aid disbursements were volatile, partly reflecting food crises (1982–83, 1992–94 and 2002 onwards) and since 1997, deepening donor unhappiness with the policies of the Zimbabwe government (IMF, 2008). In terms of net resource flows (excluding aid), there was a net outflow of private sector finance over this period of US\$205 million due to the reduction in bank and trade finance lending which was negative.

In other words, since 1980 Zimbabwe has been wholly reliant on official inflows of some US\$6.8 billion, partly offset by a net outflow of US\$205 million in private finance. Even during the post-2000 period the net inflow of aid funding, averaging US\$155 million

annually, was only 23 percent less than the US\$195 million annually received during the 1980s (UNDP,2008).

4.10 South Africa's economic experiences

4.10.1 Introduction

South Africa was readmitted to the international community after successful free elections in April 1994 following years of international isolation imposed on the country due to its racially motivated apartheid policies. Trade liberalisation has been accompanied by responsible monetary and fiscal management and this has largely allowed South Africa to experience continuous, moderate, economic growth since 1994. Inflation has been within target, and the budget deficit has been falling in recent times. Since 1994, the government has channelled substantial resources into social programs and services. Despite these impressive policy reforms, the economy has failed to grow in sufficient amounts to make inroads into the high unemployment and poverty (Hoogeveen and Özler, 2004).

4.10.2 Trade liberalisation policy reforms in South Africa

South Africa's trade regime has shifted over the last three decades. Prior to 1970, a policy of import-substitution industrialisation was adopted. Since then trade policy has focused on achieving greater openness, first through the stimulation of exports during the 1970s and 1980s, and then later through a more concerted attempt at trade liberalisation. However, despite these previous attempts at trade reform, South Africa entered the 1990s with high and variable tariffs and a complex system of quantitative restrictions (Tsikata, 1999).

Although the 1990s was a period of unprecedented trade liberalisation, the earliest years of the decade saw an increase in protection and considerable variation across commodities. Unlike most developing countries, South Africa imposed high tariffs on consumer products and lower tariffs on imported machinery and capital goods (Tsikata, 1999). This uneven structure of protection contributed to the country's long-standing dependence on exports as a means of financing imported investment goods. The resulting current account constraint was exacerbated by the introduction of sanctions during the 1980s (Tsikata, 1999). The previous government responded by introducing ad hoc import surcharges and actively promoting exports.

A striking feature of the South African trade liberalisation reform was that South Africa was **not pressured** into making changes as part of the conditions for receiving loans. The trade policy evolved in response to the perceived problems and needs of the economy, thus removing the credibility challenge. Trade liberalisation did not start in earnest until the new government came into power. Import surcharges were removed on capital goods in 1994 and consumer goods in 1995 (Tsikata, 1999). The pace of liberalisation culminated in the 1995 Uruguay Round and an offer to the World Trade Organization consisting of a five-year tariff reduction and rationalization program (Cassimet, 2004). The government's commitment to trade reforms was reflected in its proposal to halve average tariffs in manufacturing.

However, with the exception of consumables, initial tariff rates were already below the offered rates and special dispensation was granted to the 'sensitive' textiles and vehicles sectors. The proposed rationalization program involved removing quantitative restrictions, phasing-out export incentives, and reducing the number of tariff lines and applied tariff rates (Cassimet, 2004).

The reduction in tariffs during the 1990s was pronounced. The largest absolute declines were on consumables. Quantitative restrictions were replaced with their tariff equivalents, although in the case of agriculture this led to an increase in protection. The export incentive scheme was abolished by 1997 and the number of tariff lines had declined by 40 percent by 1999 (Lewis, 2001). Average tariff rates halved and the country moved towards its proposed rationalization targets. However, the pace of reforms slowed considerably.

In 1999, there were still 47 different applied tariff rates, with a highest rate of 55 percent (Lewis, 2001). This fell far short of the proposed six tariff bands. The removal of export incentives meant that trade reforms had a negative effect on the anti-export bias (Tsikata, 1999). Furthermore, the continued favouring of consumables meant that effective protection might have increased (Fedderke and Vase, 2001). Therefore, the system of protection remained complex despite the trade liberalisation episode.

4.10.3. South Africa's economic performance 2000-2007.

Key development indicators for South Africa from 2000-2007.(see table 4.4)

Table 4.4: Key development indicators for South Africa from 2000-2007.

	2000	2001	2002	2003	2004	2005	2006	2007
Real GDP growth, at 1990 prices	4,15	2,74	3,69	2,98	4,47	4,9	5,4	5,1
Inflation, year on year, percent	5,4	5,7	9,2	5,8	1,4	3,4	4,7	7,1
Unemployment	29,4	29,7	30,4	28,0	26,2	26,7	25,5	23,0
Real Interest Rates	9,2	8,1	6,6	9,1	9,9	7,2	6,6	6,1
Gini-coefficient	0,682	0,685	0,670	0,686	0,678	0,683	0,685	0,660
Budget deficit/surplus as a percent of GDP	-2,0	-1,9	-1,4	-1,1	-2,3	-1,4	-0,3	1,0
FDI (billions Rands)	4,280	85,763	12,153	1,275	-3,566	36,354	-44,625	19,224
Exports (as a percent of GDP)	27,9	30,1	33	28,1	26,7	27,4	29,7	31,5
Imports (as a percent of GDP)	24,9	26,1	29,1	25,8	27,1	28,2	32,9	34,6
Overall balance of Payments as a percent of GDP	-0,1	0,3	0,8	-1,1	-3,2	-4,0	-6,5	-7,3
Gvt debt as a percent of GDP	41,7	40,7	34,8	34,3	33,0	29,6	26,4	23,4

Source: Statistics South Africa, South African Reserve Bank

The South African economy performed poorly during the years leading up to the recent liberalisation episode (Tsikata, 1999). Gross domestic product (GDP) grew at just over one percent per year during 1985-1993. Investment fell during this period due to political instability and declining foreign capital inflows. However, the depletion of inventories allowed the capital stock to accumulate and contribute positively to overall growth. By contrast, labour employment and total factor productivity (TFP) were relatively stagnant. Agriculture, mining, and manufacturing either grew slowly or contracted in spite of subsidized exports. The growth that did exist was primarily driven by public services and government expenditures.

The country's performance changed dramatically during the trade liberalisation period. Most notable was the acceleration of economic growth driven by rising factor productivity. A number of studies found that this increased productivity was partly a result of trade liberalisation (Arora and Bhundia, 2003; Fedderke, 2003). Jonsson and Subramanian (2001) econometrically examined the relationship between nominal tariff reductions and average TFP growth during the 1990s.

They found a strong and robust relationship in which a one-percentage point decline in tariff rates raised the TFP growth rate by 0.74 percentage points. Harding and Rattso (2005) update the study and found its conclusions robust. Trade liberalisation therefore appears to have contributed positively to the accelerated growth of the 1990s. Both imports and exports increased rapidly during the liberalisation period. The empirical evidence suggests that higher export growth was due to changes in trade policies (Fedderke and Vaze, 2001; Edwards and Golub, 2002; Edwards, 2003).

However, the depreciation of the real exchange rate during this time may have also been an important factor in determining export competitiveness (Edwards and Golub, 2002). Furthermore, the removal of trade sanctions at the end of apartheid may have accounted for some of the sudden increase in trade experienced during the mid-1990s (Tsikata, 1999; Edwards and Golub, 2002), although the evidence remains ambiguous (Golub and Ceglowski, 2002).

Some studies found a positive relationship between exports and productivity growth (Belli et al., 1993; Jonsson and Subramanian 2001), possibly because increased import competition and imported capital goods have resulted in productivity-enhancing technological change (Black, 1996; Edwards, 2003). Therefore, one of the mechanisms through which liberalisation appears to have influenced economic growth is through its stimulation of exports, import competition, and improved access to foreign technology.

Finally, investment grew strongly during the liberalisation period. This is likely due to a resurgence of foreign investment after the reestablishment of political and economic stability (Tsikata, 1999). However, Jonsson and Subramanian (2001) find that trade liberalisation may have contributed positively to faster capital accumulation due to cheaper imports. Despite higher investment growth, the increase in capital accumulation was smaller than the increase in either labour employment or productivity. This is reflected in the sectoral structure of growth. Although the more capital-intensive mining and manufacturing sectors grew faster during the 1990s, it was the more labour-intensive service sectors that were the primary sources of overall economic growth (Jonsson and Subramanian, 2001).

The 1990s therefore represents at least a structural break if not a positive turning point for economic growth in South Africa. The stagnation of the 1980s was reversed, with renewed

growth driven by productivity gains from the augmentation of technology and greater efficiency (Fedderke, 2001). Trade performance improved and foreign markets became increasingly important. Of particular relevance to this study is the considerable empirical evidence suggesting that trade liberalisation enhanced productivity and economic growth (Tsikata, 1999). However, this positive growth-effect is insufficient to conclude that liberalisation has had a positive effect on employment and wages and household incomes (Tsikata, 1999).

4.10.4 Trade, employment, and wages

Unemployment increased during the 1990s, despite the country's stronger economic performance (Casale et al, 2004). Under the broad definition, which includes the non-searching unemployed, the national unemployment rate increased from 29.4 to 42.9 percent during 1995-2003 (Casale et al 2004). Due to labour force participation rising considerably faster than job creation, escalating unemployment affected all population groups. Poverty also worsened during 1995-2000, especially amongst the country's poorest population (Hooegeveen and Ozler, 2005). This rising unemployment and poverty raises concern over the possible effects of foreign competition and structural adjustment on labour employment and wages.

Employment increased by more than ten percent during 1995-2003 (Hooegeveen and Ozler, 2005). However, while rising employment coincides with trade reforms, most studies find a **negative** relationship between recent liberalisation and net aggregate employment. For example, Bell and Cattaneo (1997) and Edwards (1999) use a fact or content approach and find that import penetration has reduced employment.

However, these studies also find that this effect has been small. Furthermore, Edwards (2003) uses firm-level data and finds that large firms affected by trade liberalisation tended to reduce employment, but that there is no evidence of this amongst smaller firms. Therefore, the empirical evidence suggests that liberalisation has had little or no effect on net aggregate employment, and hence did not contribute to the observed increase in employment during trade liberalisation (Bhorat, 1999). Economic growth has affected population and skill-groups differently. While wages and employment amongst skilled-workers rose during 1995-2003, unskilled workers experienced slower employment growth and declining wages (Edwards and Abdi, 2003).

A number of studies have focused on the factor-bias of trade-induced changes in net employment. Borat (1999) finds that increased trade during the 1990s only benefited skilled labour, with lower-skilled employment declining. Edwards (2002) decomposes the structure of production and trade and finds that, although small, the effect of increased trade was to raise the skill-intensity of production. Edwards (2003) uses firm-level data and concludes that trade-induced technological evidence which explain some of the shift towards skill-intensive production and falling unskilled labour employment. These studies suggest that focusing on the effect of liberalisation on aggregate employment hides the differential effect of trade on employment and wages across workers.

Jonsson and Subramanian (2001) find a positive relationship between tariff-reductions and sectoral capital growth. Since no structural relationship is specified, the authors tentatively conclude that sectors experiencing reduced import protection might have used existing capital more efficiently. By contrast, Edwards (2003) uses firm-level data and finds that firms affected by trade liberalisation invested more heavily in capital equipment. This corroborates observed labour trends, since increased investment has been found to be associated with a rising skill intensity of employment (Fedderke et al. 2003).

4.10.5 Summary on impact of trade liberalisation on employment in South Africa

The above studies have focused on the effects of liberalisation on net employment and do not examine the adjustment costs associated with trade reforms. Therefore, while the empirical evidence finds that liberalisation has had little effect on the level of employment, it does not suggest that there has not been any ‘churning’ of the labour market resulting from changes in the structure of production. Furthermore, while the evidence suggests that higher-skilled workers have benefited more than lower-skilled workers have, the extremely high level of unemployment in South Africa makes it difficult to infer the effects of trade on the distribution of household incomes and poverty.

In conclusion, the empirical evidence suggests that trade reforms over the last decade have been significant and have contributed positively to economic growth. However, import competition and technological change may have undermined employment, especially amongst lower-skilled workers. Poverty and inequality have also risen dramatically.

4.10.6 Fiscal policy

Fiscal policy management towards the end of apartheid had been poor (Tsikata, 1999). The new government in 1994 inherited serious fiscal and other imbalances. The budget deficit in 1993/94 was equivalent to over 7 percent of GDP, and was still above 5 percent when determined macroeconomic stabilisation efforts began under the GEAR programme (Tsikata, 1999). The authorities had notable success in strengthening revenue collection – the independent Revenue Authority is seen as a model of effective government policy implementation – but government also succeeded in restraining expenditure growth between 1997 and 2003 (Tsikata, 1999).

The improvement in the fiscal situation accelerated with the pick-up in growth from 2003 (Tsikata, 1999). Whereas under GEAR, the aim was to reduce public deficits to three per cent of GDP, by 2006/07 the budget was in surplus, and the 2007 Medium Term Budget Plan projected further surpluses through 2010/11 (Tsikata, 1999). The turnaround in budgetary performance has given rise to a sharp reduction in the ratio of public debt to GDP since 1996. This has contributed to an improvement in investor sentiment towards South African assets, which has seen its reflection in strong portfolio inflows since 2003. The period 1994 to 2004 was associated with strong budget consolidation in order to bring the deficit down to the target level of 3 percent of GDP (Tsikata, 1999).

4.11 A comparison of Zimbabwe and South African economic performance during the trade and economic liberalisation policy reforms

4.11.1 Introduction

Since this study aims to compare the impact of trade and economic liberalisation policy reforms on Zimbabwe's SMES to that of South Africa's SMEs, it becomes imperative to determine whether there were similarities and differences in the economic performance of the two countries during the period 2000-2010. The study restricts itself to the following indicators: gross domestic product, investment, poverty levels, manufacturing performance, inflation rate, budget deficit, credit to private sector, trade openness, ease of doing business, current account deficit, and FDI inflows and unemployment rates. To make the comparison realistic, the study also benchmarked the evidence from Zimbabwe to international standards.

4.11.2 Gross Domestic Product

Using the purchasing power parity (PPP) method of calculating GDP, Zimbabwe's per capita income in 2006 was \$2,437—a drop of more than 23 percent since 1998 (IMF,2008). Although GDP per capita had been falling for ten years, it remained well above the median for low-income sub-Saharan African countries (LI-SSA) (\$1,172) but far below the level in South Africa (\$12,796). From 2001 to 2006, the Zimbabwean GDP in constant prices contracted at an average annual rate of 5.8 percent .According to the USAID (2008) such a performance is among the world's worst (USAID,2008).

By comparison, that of South Africa increased by 5.0 percent (USAID, 2008). Underpinning Zimbabwe's poor growth performance was a low rate of investment (IMF, 2008). Official estimates show that gross domestic investment averaged 13.7 percent of GDP in the period 2001-2005 and was 16.1 percent in 2006. Such an investment rate was below the LI-SSA average of 18.8 percent of GDP, and fell far short of investment rates in South Africa of 17.1 percent (IMF, 2008). Furthermore, after accounting for government capital expenditure the estimated level of private investment had averaged just 3.2 percent of GDP over the same period, which was not even enough to cover depreciation. Hence, the stock of capital in the private sector had been on a sustained decline. The level of investment had not only been low, but also highly inefficient (IMF, 2008).

4.11.3 Investment

The incremental capital-output ratio (ICOR) shows both inefficiency in investment levels and the decline in private sector stock capital; ICOR is the amount of capital investment per unit of added output. For the period 2001–2005, the ICOR for Zimbabwe was negative, indicating that output had fallen steadily despite having 14 percent of GDP reportedly allocated to capital investment (IMF,2008). In contrast, the ICOR averaged 4.1 over the five years to 1998; at that time, Zimbabwe had a pay-off of one dollar per year in extra output, for every \$4.1 of capital investment, which is a reasonably good level of investment productivity (USAID, 2008). By comparison, the benchmark for LI-SSA over the five years to 2004 was an ICOR of 4.6, showing that \$4.6 of investment had been required in the region, per unit of added output. The corresponding ICOR value for South Africa was 3, 8 (USAID, 2008).

4.11.4 Poverty levels

In an economy characterized by declining per capita income, hyperinflation, high unemployment, and shortages of food, fuel, and foreign currency, it is no surprise that poverty was becoming more severe and widespread. However, the poor quality of data and the rapidity of the economic collapse, made it difficult to gauge poverty and inequality conditions accurately (USAID, 2008).

A household survey done in the 2003 Poverty Assessment, estimated that 72 percent of the population fell below the poverty line, defined in terms of total consumption (USAID, 2008). This was 17 percentage points higher than the 1995 figure of 55 percent. The incidence rate in Zimbabwe in 2003 was worse than the LI-SSA median of 42.1 percent, and even worse than the extremely high rate of 68.0 percent in Zambia (USAID, 2008).

The economic crisis had brought with it severe shortages in food and other necessities. Between 2002 and 2004, an average of 47.0 percent of the population could not fulfil their minimum dietary energy consumption needs. This deficiency rate was 14 percentage points higher than the LI-SSA median, which was at 33.0 percent (UNDP, 2008).

4.11.5 Manufacturing performance

Manufacturing had also declined more sharply than the economy as a whole, falling from about 19 percent of GDP in 2001, to 16 percent in 2003, and an estimated 15 percent by 2006 (USAID, 2008). Mining accounts for a small proportion of GDP because its value-added processes fall under manufacturing. Nevertheless, mining's direct share of GDP rose from 3.8 percent in 2001, to 4.9 percent in 2003. Investments in platinum mining boosted the sector's contribution to GDP, to an estimated 6.4 percent by 2006 (USAID, 2008).

4.11.6 Inflation

The most obvious sign of macroeconomic instability is hyperinflation (UNDP, 2008). According to official Reserve Bank statistics, prices rose by more than 1,000 percent in 2006, by far the highest inflation rate in the world. Independent Zimbabwean economists estimate that the true inflation rate may have reached 10,000 percent during the first half of 2007 (USAID, 2008). By comparison, the expected value for a country with Zimbabwe's characteristics is 5.6 percent, and the inflation rate in South Africa was 4.6 percent (USAID, 2008).

4.11.7 Budget deficit

On the fiscal side, the International Monetary Fund (IMF) noted that the budget deficit, including grants, for Zimbabwe stood at 10.0 percent of estimated GDP in 2006 (IMF, 2008). This was nearly triple the deficit of 3.0 percent of GDP achieved 1998, and more than six times the expected value of 1.5 percent for Zimbabwe (IMF, 2008). In comparison, South Africa virtually balanced its budget. Uncontrolled spending had driven the fiscal deficit, but both expenditures and revenues were extraordinarily high relative to GDP (USAID, 2008). According to IMF estimates, government expenditure reached 53.5 percent of GDP in 2006, more than double the expected value of 24.7 percent. In contrast, South Africa's was 26.4 percent (USAID, 2008).

While the budget has been a major source of macroeconomic instability, poor monetary policy was the immediate impetus for high inflation (USAID, 2008). According to Reserve Bank of Zimbabwe, the nominal money supply increased by 1,044 percent in 2006, approximately 70 times the expected value of 15.0 percent (USAID, 2008). The corresponding figure for South Africa was 23.1 percent. In 2006, 79.1 percent of the increase in broad money was for credit to government; in effect, the government was printing money to finance public programs. For the period 2004-2006, money supply growth outpaced measured inflation, creating a reservoir of hidden inflation via the black market, and pressures for even faster inflation in the future.

4.11.8 Ease of doing business

Zimbabwe ranked near the bottom of the World Bank's global index of the Ease of Doing Business—153 out of 175 countries rated in 2006 and a drop of eight places from 2005. Zimbabwe's ranking for 2006 was far worse than the expected value of 129, and puts the country 124 places behind South Africa (World Bank, 2008).

Still, some regulatory requirements in Zimbabwe remained less onerous than the average for the SADC region (World Bank, 2008). This includes the number of procedures required to enforce a contract (33 versus an average of 36 for LI-SSA), register property (four versus six) and start a business (10 versus 11), as well as the time required to register property (30 days versus 98 days). The corresponding figures for South Africa are 26, six and nine for procedures, and 23 days, respectively. For the time required to start a business (96 days),

however, Zimbabwe performed particularly badly compared to the LI-SSA average of 43 days and 35 days for South Africa (USAID, 2008).

4.11.9 Domestic credit to the private sector

Another primary indicator is domestic credit to the private sector. In Zimbabwe, credit to the economy (excluding government) rose from 18.2 percent of the GDP in 2001 to 27.0 percent in 2005 (IMF, 2008). Both figures are much better than the LI-SSA median (10.8 percent); South Africa was on a different plateau of financial sophistication, with a credit ratio of 143.5 percent of the GDP. As with the monetization ratio, the increase in credit to the economy largely reflects monetary mismanagement, rather than financial deepening (IMF, 2008).

In particular, the Reserve Bank had been channelling large volumes of credit to agriculture, public enterprises, and local authorities, at interest rates far below the rate of inflation (IMF, 2008). The loans were financed by issuing domestic debt that commercial banks and pension funds were required to purchase, and by printing money. Favourable interest rates in government-directed credits effectively provide a bountiful subsidy that does not appear on the government budget. Indeed, the IMF estimates that the real interest rate on bank loans averaged *minus* 27.7 percent in the five years to 2005, becoming increasingly negative over the period (IMF, 2008).

This compared to a South African average of *plus* 10.7 percent for LI-SSA and 5.6 percent (USAID, 2008). The negative rates mean that borrowers repaid the banks less than the amount received, after adjusting for inflation. Furthermore, negative real interest rates completely negated the critical role of interest rates, as a price mechanism for screening out inefficient or unproductive investments (USAID, 2008).

The spread between the interest rate on loans and deposits is a good indicator of an efficient banking system. Ideally, a lower spread is desirable (IMF, 2008). In 1998, the interest rate spread for Zimbabwe was 13 percent. In 2005 it had shot to 144.6 percent, compared to the expected value of 11.0 percent, and South Africa's 4.6 percent (IMF, 2008).

Given that lending rates were negative in real terms, the large spread indicates that depositors received a yield so negative, as to constitute a confiscation of wealth (IMF, 2008). These were ideal conditions for provoking capital flight and the hoarding of foreign currency and

commodities, in lieu of financial savings. In all respects, the economy was suffering from intense financial repression, which worked at cross-purposes to the development of a sound and efficient financial sector (USAID, 2008).

4.11.10 Trade openness

The most common indicator of trade openness is the ratio of exports plus imports (goods and services) to GDP (World Bank, 2008). For Zimbabwe, the ratio was 71.5 percent in 2006, using the official exchange rate, and the IMF estimate of GDP (IMF, 2008). A figure of 88.0 percent is thus applicable to 1998, the time when Zimbabwe's political problems were just beginning to take shape. The poor economic policy environment caused export earnings to plummet in dollar terms, despite high world prices for most commodities. Over the five years to 2006, exports declined at an average, annual rate of 3.6 percent. In contrast, the expected value for a country with Zimbabwe's characteristics was a growth rate of plus 3.9 percent. In comparison, South African exports grew by 4.9 percent in 2005 (UNDP, 2008).

4.11.11 Current account deficit

According to the IMF reports, Zimbabwe's current account deficit, excluding grants, was 5.0 percent of GDP in 2006 (IMF, 2008). Taking grants into account, the deficit was 3.9 percent of GDP, down from 11.2 percent in 2005. The 2006 number is in line with the expected value of 3.1 percent, and better than South Africa's 6.4 percent. Even so, it would be a mistake to see this as a sign of improvement (USAID, 2008). Rather, it is testament to the lack of access to foreign capital inflows and a negligible pool of foreign reserves. The country lacked the means to finance a larger inflow of imports (UNDP, 2008). The IMF also estimates that Zimbabwe's external debt at the end of 2006 at US\$4,700 million, of which arrears totalled US\$2,700 million.

4.11.12 FDI inflows

FDI can catalyze productivity gains and growth by transferring technology, developing human capital, enhancing competition, and expanding access to foreign markets (UNDP, 2008). In 2005, the flow of FDI into Zimbabwe reached 2.3 percent of estimated GDP (UNDP, 2008). Considering the political situation, this was surprisingly high. Still, it was far less than the 1998 figure of 7.3 percent, as well as the expected value of 4.1 percent (UNDP, 2008).

In South Africa, FDI inflows amounted to just 0.3 percent of GDP in 2004 (IMF, 2008). Gross reserves accounted for just 0.8 months of imports in 2006, well below the expected value of 3.3 months for a country with Zimbabwe's characteristics, and South Africa's 3.3 months. Zimbabwe's FDI performance was also well below that of one of its neighbours, Zambia. For the first, Zambia actively sought FDI to supply capital and know how, whereas Zimbabwe's policies discouraged foreign investment (USAID, 2008). While in 1994-99 flows to both countries were of similar magnitude, except in 1998, when they peaked in Zimbabwe at US\$444 million against Zambia's US\$238 million, in 2000-09 FDI into Zambia continued its upward movement while those into Zimbabwe almost completely dried up (USAID, 2008).

Total FDI inflows of US\$878 million over 1994-99 to Zimbabwe, were larger than those into Zambia, of US\$709 million (UNDP, 2008). This was subsequently reversed, as total FDI invested in Zambia in 2004-08, amounted to US\$3.6 billion, whereas FDI in Zimbabwe was just US\$323 million over the same period (USAID, 2008).

4.11.13. Unemployment

The 2005-06 Demographic and Health Survey found the unemployment rate to be 44.6 percent (World Bank, 2008). This is almost four times the expected value of 9.1 percent, 75 percent higher than South Africa's very high unemployment rate of 25.5 percent (2006). The World Bank's Rigidity of Employment index measures the difficulty of hiring and firing workers. For 2006, Zimbabwe received a score of 34.0 on employment rigidity. This was better than the LI-SSA median of 49.8, and even South Africa's score of 41.0 (USAID, 2008). One component stands out: the Bank estimated that firing a worker in Zimbabwe in 2006 would cost an employer an astronomical 446 weeks of wages - more than eight years' worth of wages. This compares to 37 weeks as the LI-SSA average, and 24 weeks for South Africa (USAID, 2008). Policies and regulations that lower the cost of firing are vital to job creation, because high costs make it much more risky to hire workers in the first place (USAID, 2008).

4.12 Summary

Trade liberalisation policy reforms were championed by the International Monetary Fund and the World Bank after the failure of import substitution measures. The reforms called for the state to relax or remove all trade barriers, among others measures. Advocates for the reforms claimed that a holistic adoption of the reforms would expand the domestic and export market, improve technological innovation in host countries, increase employment prospects and lead to a general improvement in the living standards of the host nations. The reforms had a devastating impact in Zimbabwe and this was exacerbated by the country's strained relations with key donors. In South Africa, trade liberalisation policy reforms were adopted when the country attained independence in 1994. Although the reforms increased exports, unemployment remained a challenge for the country. A comparison on the economic performance of Zimbabwe and South Africa showed that Zimbabwe fared badly in just about all the comparative areas explored and this owed much to the existence of trade sanctions and poor leadership in Zimbabwe. The next chapter focuses on research methodology and research design of the study.

CHAPTER FIVE

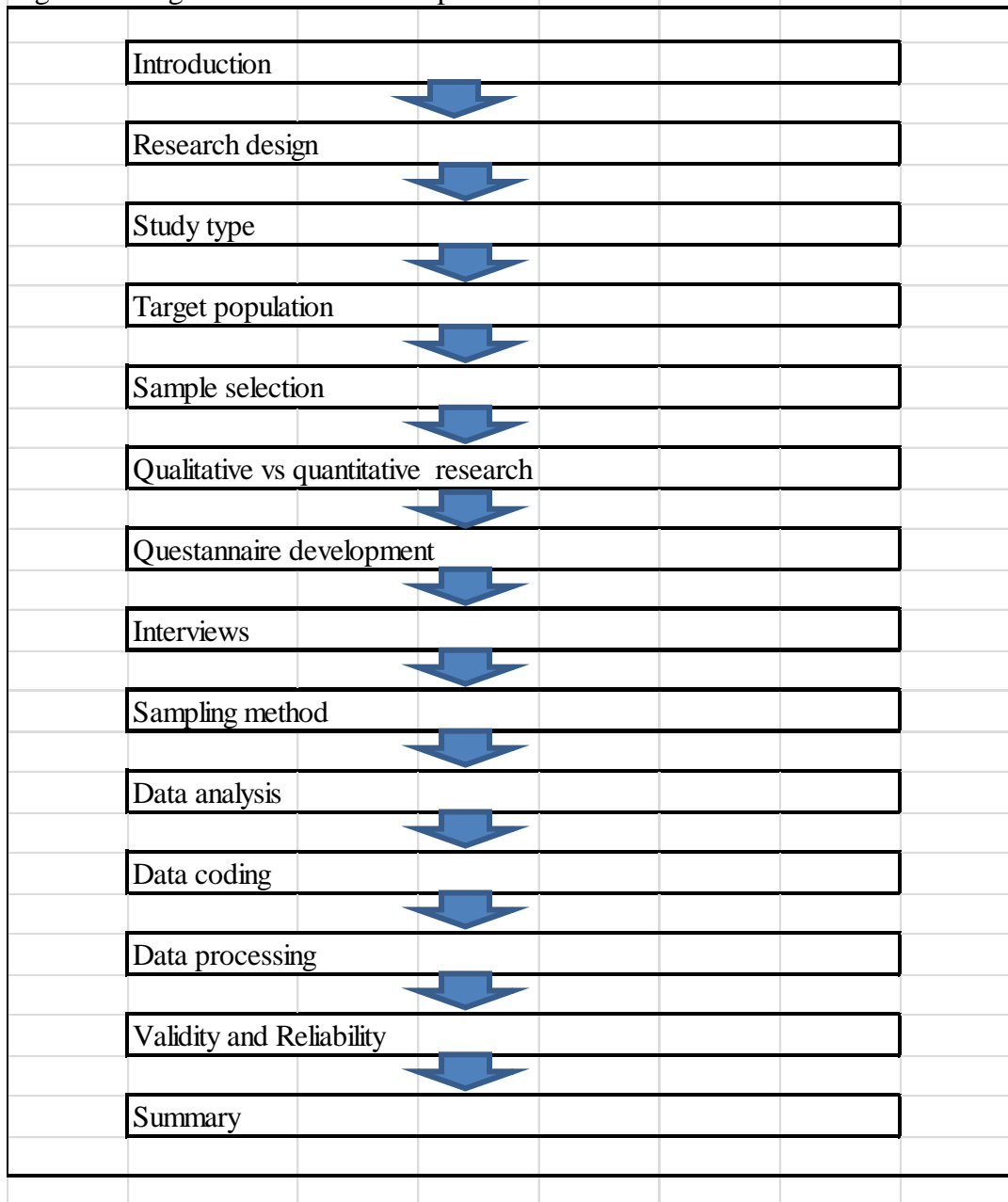
RESEARCH METHODOLOGY AND DESIGN

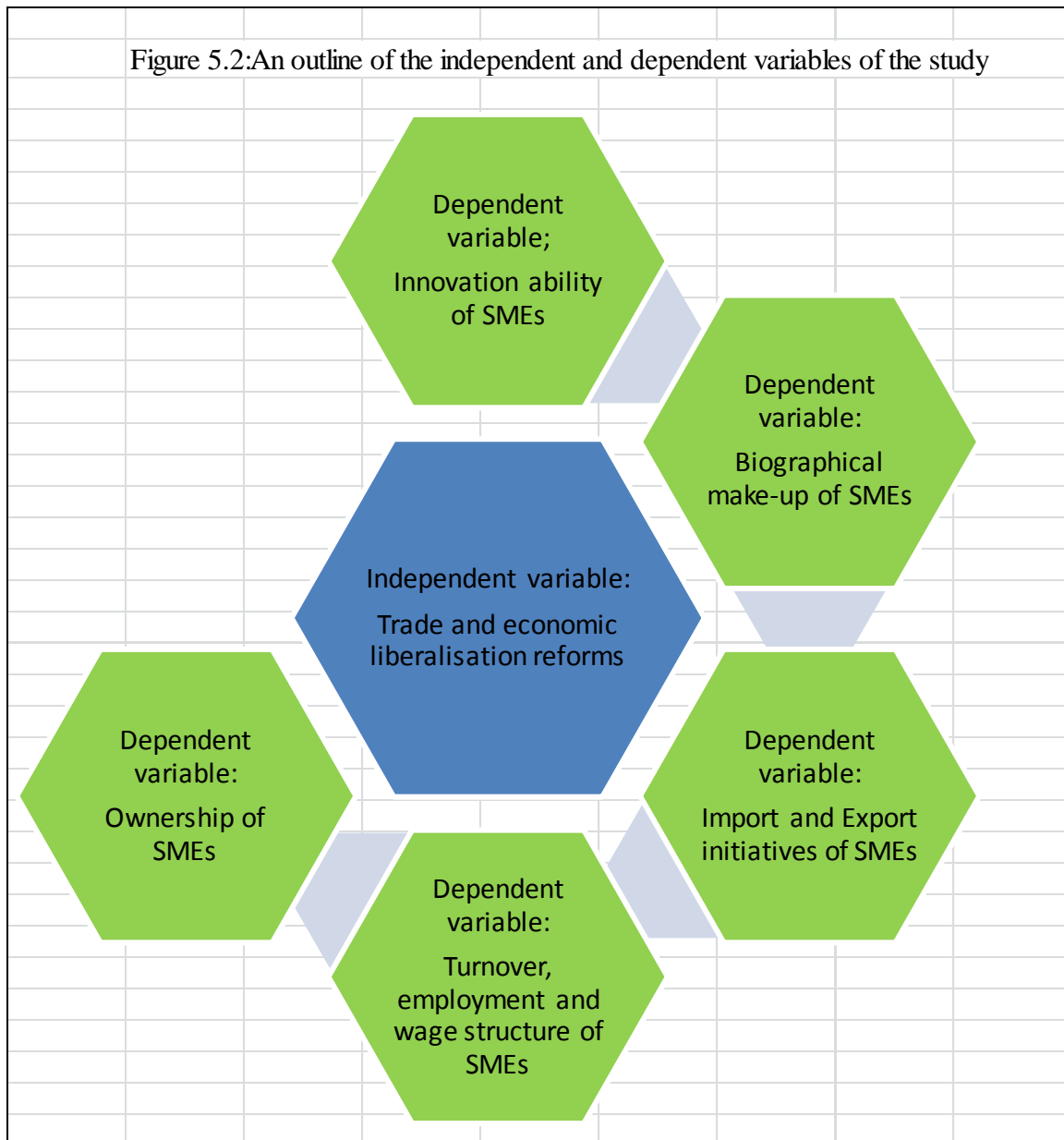
5.1 Introduction

In chapter four, key observations were that trade liberalisation policy reforms were introduced at the behest of the International Monetary Fund and the World Bank. It was noted that the reforms had a devastating impact in Zimbabwe. In South Africa, the reforms led to an increase in exports without a corresponding increase in employment.

This chapter addresses the research methodology and design. Focus is on the organization and design of the questionnaire, the methods of data collection and data analysis techniques employed in the study. The chapter focusses on the following themes: research methodology, study type, target population, sample selection, sample size, distinction between qualitative and quantitative research, questionnaire development, interviews done to validate the outcome on questionnaires, ethical and political issues and how they were addressed, data analysis, data coding, data processing and tests done to ensure validity and reliability of the data.

Figure 5.1.Logical framework for chapter five





5.2 Research design

Research design relates to the choice of the specific research methods that were used to collect and analyse the data to verify the hypothesis built on the theoretical framework. The design used in the current study was the use of a structured questionnaire complemented by structured interviews to key informants. The use of structured questionnaire allowed for a uniformed response which then made analysis of the responses easier. The questionnaire however, had a comment section that gave room to the respondents to comment further on the question being probed. This approach ensured that the researcher got both structured and varied responses which all ultimately enriched the findings.

In addition, the researcher employed a structured interview to key informants. Such key informants included government top officials within the small to medium sector, officials from small enterprises development agency (SEDCO), which is a funding agency to SMEs in Zimbabwe. In the case of SMEs in South Africa, key informants related to all the top officials in the various agencies involved with SMEs. The rationale behind the development of the structured interview was to get an indepth response on key issues pertinent to the study. Interviews were organised with each key informant and the researcher posed as the interviewer. All responses were jotted down for further analysis. Due to the great amount of task, the researcher enlisted the services of an assistant, who underwent intensive coaching and greatly assisted in the whole field work.

5.2.1 Study type

This study is comparative in nature and used a combination of quantitative and qualitative research methods. The research format for this study was descriptive. It is held by Mouton (2001) that this format is better for a research type such as the current one.

5.2.2 Target population

There are roughly 10 000 SMEs in Zimbabwe, controlling 65 percent of the total corporate purchasing power (Machipisa 1998, Zindiye, 2008). The Zimbabwean laws define an SME as a registered company with a maximum of 100 employees and an annual turnover in sales of a maximum of 830,000 U.S. dollars. Of the total number of SMEs in Zimbabwe, about 609 are believed to be in the manufacturing sector (Machipisa, 1998; Zindiye, 2008).

In South Africa, the National Credit Regulator report (2011) estimates that there are 2,4 million registered companies in South Africa, of which 2,2 million are SMEs. However, an estimated four-fifths (80 percent) of the 2,2 million fall within the groups categorized as either survivalist, micro or small. (National Credit Regulator,2011). These categories are excluded from the current study.

For the purpose of this study therefore, the total number of registered SMEs in South Africa is taken to be 440 000, of which 12 percent are involved in manufacturing activities (National Credit Regulator, 2011). This translates to 52 800 registered manufacturing SMEs in South Africa. The study targeted manufacturing SMEs in food processing, clothing and footwear, textile, and furniture and plastics. The estimate is that these sectors constitute four-fifths (80

percent) of the 52 800 registered manufacturing companies (National Credit Regulator, 2011). The effective target population of South African, registered, manufacturing SMEs in South Africa, is deemed to be 42 240.

5.2.3 Sample selection

Bell (1987) viewed a population sample as a subject or portion of the total population. In other words, a group of people or events that are strategically and systematically identified as meeting the criteria of representatives of a particular study. For purposes of this research, the researcher employed a sample of 278 subjects, mainly owners and management of SMEs in the manufacturing sector in Harare (capital of Zimbabwe) and Pretoria (capital of South Africa). The choice of Harare and Pretoria was premised on the fact that these are the commercial centres of the two countries where most manufacturing activities are concentrated. A combination of stratified random sampling and simple random sampling methods were used to identify the subjects.

Firstly, the subjects were categorised in terms of the products they manufacture. Names were then picked at random in each of the groups. The researcher endeavoured to pick equal number of subjects from each of the groups. To allow for better comparison, the researcher apportioned equal number of respondents to the two countries under the study, that is, one hundred and thirty nine questionnaires were administered in each country.

5.2.4 Sample size

The study applied the formula developed by Israel (1992) to determine the appropriate sample size:

$$n = \frac{N}{1 + N(e)^2} = n = \frac{42849}{1 + 42849(0.06)^2} = 278$$

Where n=sample size

N=Population sample

e= level of precision or sampling error

The study used 278 manufacturing small to medium companies as the sample size for the study to represent the estimated 42849 manufacturing SMEs under study. Half (139) were interviewed in Zimbabwe and the other half (139) in South Africa.

5.2.5 Qualitative versus quantitative research

Qualitative research, broadly defined, means, “*any kind of research that produces findings not arrived at by means of statistical procedures or other means of quantification*” (Strauss and Corbin, 1990), whereas quantitative research purports to test predictive and cause-effect hypotheses about social reality. Thus, it encompasses surveys, which may be used for descriptive and explanatory purposes (Rubin, 2001).

Descriptive methods seek to answer questions like what, when, where, who and how many. Burgess (1985) states that the advantage of using the qualitative approach is that qualitative researchers... can formulate and reformulate their work, may be less committed to perspectives which they may have been mis-conceptualized at the beginning of the study and may modify concepts as the collection and analysis of the data proceeds. The question underlying differences in research paradigms should be their ontological and epistemological assumptions. Hence, specific methods, particularly data gathering methods, are not necessarily linked with one set of assumptions as opposed to another.

The qualitative research helps the researcher to find meanings, concepts, definitions, characteristics, metaphors, symbols, and descriptions of things, while the quantitative approach complement the process by counting and measuring the variables under the research study (Dabbs, 1982 in Berg, 1989). According to Dey (1993), qualitative data are associated to meanings while quantitative data are related to numbers.

Quantitative methodology is often considered more “objective” and it is normally associated with a positivist perspective, while qualitative methodology is associated with an understanding of “uniqueness” derived from an interpretative perspective (Decrop, 1999). While undertaking this research, it was assumed that “*quantitative and qualitative methods are complementary rather than competing approaches,*” and that a “*combination of approaches can improve the validity of the research*” (Finn, 2000).

5.2.6 Questionnaires

Questionnaires can be defined as “*a document containing questions and other types of items designed to solicit information appropriate to analysis*” (Babbie, 2003). In addition, it is recognised that “*questionnaires can provide both quantitative and qualitative data*” (Robinson, 1998) and “*can be completed by the respondent [or] the researcher can ask*

respondents the questions in an interview situation and record answers on a pro-forma” (Robinson, 1998).

Another characteristic of questionnaires is their possibility to be developed with open-ended questions or closed-ended questions. In the case of open-ended questions, *“the respondent is asked to provide his or her own answer to the question”* (Babbie, 2003). This is in contrast to closed-ended questions, where *“the respondent is asked to select an answer from among a list provided by the researcher”* (Babbie, 2003). In the present study, the questionnaire was used as the main data collection tool, with the same set of questions being administered in sampled Zimbabwean and South African SMEs.

5.2.6.1 Questionnaire development

The questions were derived from the research questions, which in turn were directly linked to the research objectives. This ensured that the questions directly addressed the research objectives, ensuring reliability of the research outcome. A pilot study done in Zimbabwe assisted in improving the validity of the questionnaires.

Close-ended questions, which predetermine the answers, were used. The justification for the use of a closed questionnaire was that, given the huge volume of questions and the huge sample, it would be difficult to analyse responses from open ended questions (there were 278 respondents and each questionnaire had 42 questions). The questionnaires, however, allowed the respondents to comment or justify their responses to particular questions, deemed pertinent in the study. Open-ended questions were used in interviews with individuals considered key in the research process. It was felt that such individuals should be allowed to express themselves for the betterment of the results.

Sensitive questions were avoided as they would result in the participant feeling uneasy, and give distorted information. The recording process involved the researcher jotting down some notes when respondents were answering the prepared questions during an interview. In the administration of the questionnaires, the researcher employed an assistant. His role was to distribute the questionnaire, clarify any questions misunderstood by the respondent, and collect the completed questionnaires.

The researcher endeavoured to have the questionnaire completed in his or his assistant's presence, although this was not entirely successful. In some instances, the researcher was told to return for the completed questionnaire, as the individual who was supposed to answer it was busy or away. This, of course, brought in the fear of having the questionnaire completed by unintended respondents. It also meant that some questions, not understood by the respondents, could not be clarified. Field notes included both empirical observations and interpretations.

The questionnaire was divided into six sections, each of which addressed an objective of the research. This approach meant that all the objectives of the study received individual and elaborate attention. It also allowed results to be easily linked to objectives and made cross-referencing possible. The following highlight the themes of the questions that were addressed in the questionnaire as well as the justification for their inclusion.

5.2.6.2 Biographical details of the respondents (Questions 1-7)

Biographical details include the gender of the respondents, the age range, educational levels, legal status of the business, nature of products manufactured as well as timeframe for the existence of the business. Such information is very critical as it may then provide explanation to responses to some objectives. The type of product manufactured, for example, has a huge bearing on whether a business may need to export and the choice of its export destinations. Whether a business is owner managed or is managed by a professional manager has huge implications on its (business) appetite for expansion and external funding. These are two examples demonstrating the importance of the biographical details of the respondents.

Question 1: Gender of respondents

Gender refers to being either male or female. In the contemporary world, gender has become a very important dimension in developmental circles, because it is generally felt that women and children are affected worse by poverty in comparison to men (Rwigema and Karungu, 1999). This imbalance stems from historical times, where women were mostly sidelined and even disenfranchised in political and economic developments. An understanding of the make-up of respondents, along gender lines, would be critical in assessing the success of, or measures put in place, to address gender imbalances. Such an understanding is an important by-product of the study, even though it is not one of its objectives. A study by Zindiye (2008) suggests that there are more women than men running SMEs in Zimbabwe. This finding was

seen as an important milestone in the development and emancipation of women in Zimbabwe. The questions remains whether the current study could either confirm Zindiye's findings, or come up with something different.

Question 2: Age range of respondents

The age range question probes the respondents' level of maturity as successfully running a business requires a mature mind. In addition, an understanding of the age range would address whether SMEs in Zimbabwe and South Africa are run by entrepreneurs in a particular age range. Such findings are important because it assists, for example, in unravelling the decision-making process in SMEs. This question would also establish whether entrepreneurs in Zimbabwe and South Africa are aligned to the economically active age group. Knowledge of entrepreneurial alignment to the economically active age group is critical for governments in Zimbabwe and South Africa, as it assists planning and resource allocation for SMEs. Assuming the study finds most are, for example, run by entrepreneurs above 50 years, it would perhaps give rise to government becoming concerned about the future of SMEs. The government could then come up with specific programmes to encourage young people to venture into business.

Question 3: Level of education

Robert and Alicia (2003) argue that success of the business is linked with the level of the owner's education. Therefore, education is another factor that influences owner-manager's entrepreneurial success. Thapa (2007) discovered that education has a positive effect on entrepreneurial success. In addition, owner-managers' business experience is an important determinant for business success. It was further revealed by Goslin and Barge (1996), that individuals who finance new ventures weigh the owners' experience significantly when making decisions.

Owner-managers with education and experience in managing business are more capable of finding ways to activate business compared to others who do not have experience and education. The impact of education and experience on the business success of an owner-manager has been the subject of much discussion and speculation in both the popular and academic press (Staw, 1991; England 1997). Should education lead to a higher quality of entrepreneurial performance, this justifies appropriate investments in education.

A study conducted by Kim (in Meng and Liang, 1996), involving entrepreneurs in Singapore, disclosed that successful entrepreneurs have higher education levels compared to that of unsuccessful entrepreneurs. According to Kim (in Meng and Liang, 1996), Staw (1991), and Katz (in Holt, 1992), after entering the entrepreneurial world, those with higher levels of education are more successful. This is because a university education provides them with knowledge and modern managerial skills, making them more conscious of the reality of the business world, and thus puts them in a position to use their learning capability to manage business.

England (1997) suggests managers with less education than college degree holders might be less financially secure and less able to change the fortunes of their businesses, should such businesses run into problems. Roberts (1969) finds that the founders of high technology companies hold at least one college degree and that half had at least a Master of Science degree. Crant (1996) asserts that students with higher entrepreneurial intentions tended to be MBA students rather than undergraduates.

However, not all researchers agree that the level of education has any impact on business success. Lattimore and Martyn (1997) suggest that those entrepreneurs, who are poorly educated, have high instincts of business success, which they demonstrate by running successful businesses. If that is the case, then entrepreneurs with a lower education qualification may hold values that are paradoxically more strongly associated with own business success, than those held by entrepreneurs with a higher education qualification.

Question 4: Legal status of business

This question pertains to whether the business runs as a private limited company, a partnership, a cooperative or a sole owner. A private limited company (also referred to as a closed corporation in South Africa) is an entity in which all voting stock is held by a few shareholders, such as management or family members. A partnership is the relationship existing between two or more entities who join to carry on a trade or business. Each unit contributes money, property, labour, or skill, and expects to share in the profits and losses of the business.

A cooperative is an autonomous association of persons who voluntarily cooperate for their mutual, social, economic, and cultural benefit. Cooperatives include non-profit community

organizations and businesses that are owned and managed by the people who use its services (a consumer cooperative) or by the people who work there (a worker cooperative) or by the people who live there (a housing cooperative). Hybrids, such as worker cooperatives that are also consumer cooperatives or credit unions, multi-stakeholder cooperatives, such as those that bring together civil society and local actors to deliver community needs, and second and third tier cooperatives whose members are other cooperatives.

Whilst a sole owner can also form a private limited company, a deliberate attempt was made to separate a private limited company solely owned with that owned by more than one person. An understanding of the legal status of the respondents would assist in explaining certain trends such as the involvement of foreigners, import and export initiatives, and appetite for growth.

Question 5: State the products you manufacture.

Some products require more resources (monetary and human) than others do. In addition, this question could establish whether sectors were impacted uniformly by trade liberalisation policy reforms.

Question 6: Title of the respondents in the business

This question seeks to determine whether the respondent is the owner or a hired manager. Hiring a manager to run a business is seen as an important step in introducing a professional approach to business (Rwigema, 1999). There are serious defects to the owner-managed approach namely the owner may not have all the skills needed to run a business (finance, marketing, human resources). In addition, s/he may not have time to do everything needed by the business. Owner-managed enterprises usually do not survive after the owner is gone because there is no skills transfer (Rwigema, 1999).

Question 7: Timeframe since business opened.

The emphasis on this question will be on how old the business is. Timeframe of the business is a good indicator on the survival ability of the business. Businesses that are more than ten years old, for example, exhibit an ability to survive than businesses that are not more than five years old (Rwigema, 1999). One of the challenges encountered by development agencies relates to the high failure rate of SMEs (Zindiye, 2008). From a government perspective, a high failure rate for SMEs is undesirable because it negates the objectives bestowed on SMEs

namely employment creation, economic development, poverty alleviation and equity (Zindiye, 2008).

5.2.6.3 Impact of trade liberalisation reforms on employment, wages, and turnover of SMEs (Questions 8-10)

Question 8: Impact of trade liberalisation policy reforms on employment figures

Creation of employment opportunities is seen as the prime factor why SMEs are today receiving a lot of attention in developmental circles. The government of Zimbabwe regards SMEs as a viable solution to the employment problem (Zindiye, 2008). Questions raised include the extent to which SMEs have been able to create employment opportunities, after the adoption of trade liberalisation policy reforms. The study sought to determine whether trade liberalisation acted as a catalyst or deterrent in employment creation (and retention) among SMEs in Zimbabwe.

Question 9: Impact of trade liberalisation policy on turnover of business

Turnover refers to the sales of the business (Mohr and Fourie, 2004). It is regarded as one of the best indicators of business prosperity (or lack thereof). Generally, an increase in turnover means a corresponding increase in profits. Proponents of trade liberalisation (Lipsey, 2002; Prasad, 2003) believe that adoption of such a policy should see efficient enterprises **increasing** their turnover. Trade liberalisation policy reforms expand the market size through an increase in export initiative. In addition, it is advocated that trade liberalisation reduces raw material costs, as enterprises are able to obtain raw material from outside the country at reduced prices, because of the scrapping of import duties and restrictions (Lipsey, 2002). The focus of the study is to find out whether SMEs in Zimbabwe witnessed an increase in turnover after the country adopted the trade liberalisation policy reforms.

According to Harding and Rattso (2005), the era of trade liberalisation in South Africa was characterised by booming business, which translated into high economic growth. One needs to determine the extent to which SMEs shared in this boom.

Question 10: Impact of trade liberalisation policy on the wage bill of business

Focus will be on how the remuneration costs of SMEs were impacted by trade liberalisation policy reforms. Before the adoption of the reforms, a myriad of policies made it almost

impossible to retrench employees, or reduce their wages and salaries. Advocates of trade liberalisations (Prasad, 2003; Lipsey, 2002) claim that such policies were a deterrent to investors and needed to be scrapped.

From a business perspective therefore, the adoption of trade liberalisation policy reforms was expected to **reduce** costs associated with remuneration, owing to the new freedom to hire and retrench, as and when it suited the business. The study assesses whether those expectations were realised. The study also compares responses from Zimbabwe against those of South African SMEs where there is a strong and vibrant culture of trade unionism?

5.2.6.4 Impact of trade liberalisation policy reforms on the innovation ability of SMEs [Questions 11-20]

Question 11: Whether SMEs carried out any form of innovation in the last 10 years

This question assesses whether there has been increased innovation attributed to trade liberalisation and thus validate claims made by neo-liberals that trade innovation increases innovation to host countries, through technology transfer. It would also be interesting to find out whether there were differences in response between SMEs in Zimbabwe and those of South Africa.

Question 12: Nature of innovation you carried out (for those that carried out innovation)

Innovation can either be product or process centred. Product generally innovation increases the market while process innovation improves efficiency leading to reduced costs by the enterprise. Assuming that it is found that there are more SMEs who carry out product, as opposed to process innovation, one would want to find if this led to employment opportunities for SMEs. One would also want to know the differences, if any, in responses between SMEs in Zimbabwe and those in South Africa.

Question 13: Factors that led SMEs to carry out innovation

Possible factors include increased competition from local competitors, increased competition from outside, the need to improve quality and the need to curtail costs. An understanding of the factors would be important in telling why some SMEs adopted process rather than product innovation. Understanding of factors influencing level of innovation among SME in Zimbabwe is also critical from a government point of view as it assist in determining the appropriate support for SMEs.

Question 14: Stakeholders who assisted SMEs in carrying out innovation

With the economy opened up, the economy ideally should witness an increase in Multi-National Corporations (MNCs) and the expectation is that these would play a critical role in the innovation ability of SMEs through technological skills transfer, strategic as well as subcontracting arrangements. The hypothesis therefore was that MNCs partnered SMEs in carrying out innovations in both Zimbabwe and South Africa.

Question 15: Impact of innovation on SMEs competitiveness

The expectation was that those SMEs that carried out innovation would be able to compete through reduced costs or increased markets or both (Belderbos, 2011).

Question 16: Whether decision to carry out innovation was influenced by trade liberalisation policy reforms

Ruiz (2011) reckons that trade liberalisation policy reforms promotes innovation. He asserts that opening up of the economy to external pressures will push companies to be more efficient, reduce costs, and improve product quality. All these pressures will ultimately lead to both process and product innovation. This question sought to validate Ruiz's theory by examining SMEs in Zimbabwe and South Africa.

Question 17: Impact of innovation on employment in SMEs business

Such information would be useful in determining the relationship between innovation and employment creation, bearing in mind that not all types of innovation promotes job creation.

Question 18: Factors why some SMES could not carry out any innovation [for those SMEs that did not carry out innovation]

Not all SMEs would be successful in carrying out innovation. For those who did not carry out innovation, one wonders the factors for the failure or unwillingness. Knowledge of such factors would assist in the designing of appropriate policy measures to assist SMEs so that they would be able to carry out innovation. An outcome suggesting that contentment was the factor behind failure to innovate, however, would be a cause of great concern, as it would suggest that SMEs are not in tune with the realities of competition in the twenty first century.

Question 19: Belief in ability to carry out innovation going forward

To what extent are SMEs optimistic that they can innovate in the future? In addition, do they believe that their future survival and success is premised on their ability to carry out innovations?

Question 20: Impact of technological innovation on SME business in the next ten years

The question sought to determine the perceptions of the respondents on the impact of innovation to SMEs in the next ten years.

5.2.6.5 Impact of trade liberalisation reforms on SMEs ability to attract FDI as well as linkages with Empowerment [Questions 21-28]

Question 21: Whether there has been a change in ownership of business in the last ten years involving foreign investors

One of the fundamental effects of trade liberalisation policy reforms is the attraction of capital, particularly foreign capital. Many believe that successful implementation of trade liberalisation reforms by the host government is a positive signal to foreign investors, as it implies less investment risk (Kose,2006). Thus, the progress of trade liberalisation reforms can be an impetus to strong foreign investment flows.

A World Bank report on Global Economic Prospects (World Bank, 2008) recognises that FDI can be a powerful channel for the transmission of technology to developing countries by financing new investment, by communication information about technology to domestic affiliates of foreign firms, and by facilitating the diffusion of technology to domestic firms. A research study by Gardiner (2000) shows that a relationship exists between GDP growth rate and FDI inflow. According to Gardiner, a high inflow of FDI is associated with higher GDP and high employment prospects in host countries. One therefore wonders whether SMEs witnessed the infusion of foreign capital to their businesses.

Question 22: Possible reasons for SMEs that have not changed ownership structure [for those who have not changed]

For those SMEs that had not witnessed changes in ownership structure in the past decade, one would be interested in determining the motive behind such a decision. Possible factors could include distrust for foreign partners, the need to maintain control of the business, failure to

attract foreign capital or satisfaction with the status quo. Response to the above questions is important in determining the attitude of entrepreneurs to foreign investor involvement in the ownership of SMEs. It would also assist in answering the question why SMEs remain small and do not migrate to become big entities.

Question 23: Possible reasons for incorporating foreign investors [for those who engaged foreign investors]

In Zimbabwe, the need to attract foreign currency has never been doubted, because liquidity has been one of the challenges that affect the success of most, if not all, the businesses (Block, 2013). This problem dates back to 1997 when the country ceased to be a recipient of generous lines of credit from the International Monetary Fund and the World Bank; owing to policy differences between Zimbabwe and the Bretton Woods institutions. One could thus hypothesise that the need to secure external funding was the leading factor on why SMEs in Zimbabwe incorporated foreign investors. It would however be interesting to find out whether this indeed was the case and also what the response from South African SMEs was, given the fact that South Africa did not experience liquidity challenges.

Question 24: Impact of empowerment initiatives on SMEs ability to attract FDI

Zimbabwe and South Africa were unique in that trade liberalisation policy reforms were carried out at the same time with empowerment initiatives. An important feature of the empowerment law was the requirement that at least 51 percent of ownership in all entities in Zimbabwe should be in the hands of Zimbabweans (Government of Zimbabwe, 2011). This becomes contradictory to the tenets of trade liberalisation which advocates for free movement of capital, and clear and enforceable property rights. The case of Zimbabwe and South Africa presented an interesting case study to policy makers and researchers alike. A response to the above question would assist other countries who might want to go the same route (carrying out trade reforms simultaneously with empowerment).

Question 25: Impact of empowerment on profitability

The arguments for the introduction of empowerment initiatives stemmed from the need to address past economic imbalances occasioned by apartheid (South Africa) and colonisation (Zimbabwe). The Zimbabwean government argued that a situation where about 87 percent of arable land belonged to less than one percent of the population, was unsustainable and would trigger mass revolution if not addressed (Government of Zimbabwe, 2001).

Empowerment was therefore seen as a viable tool to bring long-term political stability, as well as address the equity gap. Given the fact that most of the SMEs were expected to be the direct beneficiaries of this policy, one could hypothesise that SMEs would welcome the policy and that it would positively contribute to their profits.

Question 26: Impact of empowerment on profitability in the next 10 years

In business, perceptions are critical, in that decisions are carried out based on them. Assuming an entrepreneur believes empowerment will bring more profits, then s/he is likely to begin an investment process and hire more people (thus decreasing unemployment). On the opposite end, if s/he is pessimistic, s/he may start shedding jobs.

Question 27: Impact of empowerment on the attraction of FDI at SMEs in the next ten years

This question complements the previous one. Response to the question ought to provide a picture on the perceived influence of empowerment to the attraction of FDI. This information is critical from a policy formulation/adjustment point of view. For example, assuming that most SMEs reckon that empowerment initiatives will harm efforts to attract FDI, one would expect policy makers to perhaps adjust the empowerment policy so that it does not harm attraction of FDI.

5.2.6.6 Impact of trade liberalisation reforms on import and export initiatives of SMEs
[Questions 28-42]

Question 28: Whether SMEs are importing goods/raw materials

Imports are goods (finished goods or raw materials) manufactured from outside the country but consumed in the country (Mohr and Fourie, 2004). At macro level, imports are bad for the economy because they promote goods from other countries at the expense of those from the domestic market, leading to job losses (Mohr and Fourie, 2004). From an enterprise point of view, however, imports may be good if the enterprise can obtain the goods at cheaper price compared to the goods from the domestic market, or where the enterprise can obtain better quality goods, compared to those available on the domestic market. Ideally, removal of trade barriers is associated with increased imports as enterprises take advantage of better prices or better quality or both.

Question 29: Continents from where imports come

The focus of the question is on source of imports. This becomes very handy if one considers that Zimbabwe has adopted the Look East policy after relations with the traditional markets in Europe and United States of America soured owing to policy differences. The Look East is a policy meant to forge strong economic links with Asian, as opposed to European markets. This question is also critical as it inevitably links with the balance of trade issue.

In South Africa, information from the revenue authority (South African Revenue Services, 2007) suggests that at aggregate level, most imports were from the European Union and China. One wonders whether this also applied to SMEs.

Question 30: Whether SMEs are exporting products

Exports are goods or raw materials manufactured from the domestic market and sold outside the country (Mohr and Fourie, 2004). Increased exports are a desired goal for every government. Spending on exports by foreigners constitutes an injection into the circular flow of income in the domestic economy. Spending on imports on the other hand, constitutes a leakage or withdrawal from the circular flow of income in the country (Mohr and Fourie, 2004). In short, exports increase liquidity in the domestic economy, stimulating investments and creating jobs. The objective of the question was to validate one of the claims made in favour of trade liberalisation, namely that opening an economy up to international competition encourages domestic firms to increase their exports.

Question 31: Factors influencing exports [for those SMEs exporting]

Economic theory suggests some benefits from exports namely that it affords the enterprise to get foreign currency (Mohr and Fourie, 2004). This is particularly important in a situation where the enterprise is also importing as it means that the enterprise can use part of the funds obtained from exports to pay for the imports. Additional advantages attributed to exports include tapping technology. One wonders whether the above factors were important in influencing SMEs in Zimbabwe and South Africa to export.

Question 32: Impact of exports on SMEs business turnover

The question was motivated by the need to determine quantity and significance of exports by those SMEs involved in exports in Zimbabwe and South Africa. Recent debates among policy makers and researchers on the subject of SMEs in developing countries have focused

on the ability of such businesses to survive or sustain their existence amid growing pressure from globalization and trade liberalisation (Tambunan, 2011).

There is a growing body of sceptical contributors who believe that most SMEs in developing countries lack the necessary resources, particularly technological advances, and skills, to remain competitive in the global marketplace. A high impact of exports on turnover would demonstrate that SMEs in Zimbabwe and South Africa were engaging meaningfully in globalised business and thus dispel doubts on the ability of SMEs to survive in a globalised economy.

Question 33: Impact of exports on employment creation for SMEs

Economic theory suggests that exports create employment opportunities at micro and macro levels in the economy (Mohr and Fourie, 2004). At micro level, exports increase demand for products leading to more workers being hired to increase production. At macro level, exports enhance liquidity in the economy and this promotes high demand leading to increased investment. Increased investment is associated with increased employment opportunities (Mohr and Fourie, 2004).

Question 34: Impact of exports on technological innovation for SMEs

Advocates of trade liberalisation assert that increased exports bring technological advancement to exporting companies (Falvey and Kim, 1992). This question sought to validate those claims based on experiences by SMEs in Zimbabwe and South Africa.

Question 35: Factors that have had the greatest impact on SMEs export initiative

The rationale for asking the question was to assist policy makers on areas they should pay attention to in their continued efforts to lure SMEs to increase their export initiatives.

Question 36: Destination for SMEs exports

An understanding of the destinations would assist policy makers in engaging authorities in recipient countries to address some of the concerns highlighted by the SMEs, which were hindering their export initiatives. Another objective of the question, for SMEs in Zimbabwe, was to assess the effect of the Look East Policy on SMEs exports.

Question 37: Reasons for not exporting [for those SMEs not exporting]

An understanding of such factors would assist authorities in designing relevant packages that would assist SMEs in Zimbabwe and South Africa to venture into exports.

Question 38: Existence of plans to do exports in the next 10 years

The aim of the question was to assess whether the statistics for SMEs involved in exports are likely to increase in the next 10 years and highlight the magnitude of the task the export promoting authorities in both countries need to accomplish.

Question 39: Influence of foreign competition on the domestic market of SMEs business

An understanding of the level of impact on SMEs would assist authorities in both countries in designing appropriate policies, to assist SMEs in both countries. Foreign competition in this case refers to two aspects namely imports and foreign-companies operating directly in host countries.

Question 40: Impact of strategic partnerships made with MNCs on your profitability.

The question sought to determine how many SMEs in Zimbabwe and South Africa had strategic partnership with Multi- National Corporations, and the affect such partnerships have on the profits of SMEs in both countries. Advocates of trade liberalisation assert that it benefits SMEs through strategic partnerships and sub-contracting arrangements (Lipsey, 2002). Apart from increased business, such arrangements also benefit SMEs through skills transfer (Lipsey, 2002).

Question 41: Impact of ICT on your import and export initiatives

The question sought to find out the level of impact information, communication, and technology (ICT) has on import and export initiatives of SMEs in Zimbabwe and South Africa. ICT-induced changes are transforming the rules of competition and giving rise to new types of competitive strategies: innovation-driven and time-based competition, mass customization, lean manufacturing, and demand-driven, built-to-order products (Fine, 1998).

ICT has drastically cut time and distance, both being long-standing obstacles to communication. New communication technologies allow companies to source inputs independent of location. With costs of transport and information diminishing, countries are forced into the same competitive arena. The “new competition” entails flexible response,

customization, networking, and new forms of inter-firm organization (clustering), rather than classic price competition, dominated by vertically integrated firms (Best, 1990).

Question 42: Overall assessment of the impact of trade liberalisation policy reforms on SMEs business

This was an open question allowing the respondent to summarise his/her overall impression of the impact of trade liberalisation policy reforms on his/her business.

5.3. Interviews

In addition to the formal questionnaires, interviews were also conducted. An interview is “a data-collection encounter in which one person (an interviewer) ask questions on another (a respondent)” (Babbie, 2003). It is “a mainstay of field research used both by participant, observers and by researchers who make no pretence of being a part of what is being studied” (Babbie, 1999). Interviews can be divided into three main categories, namely: structured, semi-structured, and unstructured.

Despite the fact that a structured interview “is associated with the survey style of research, where a standard interview schedule is designed to answer a series of specific questions on a face-to-face basis” (Finn, 2000), interviews are constructed less rigidly than questionnaires. They nevertheless, follow a set pattern in asking questions or raising topics for discussion (Scheyvens and Storey, 2003). Semi-structured interviews, on the other hand, contain specified questions “but will allow more probing to seek clarification and elaboration” (Finn, 2000). Finally, there are the unstructured or in-depth interviews. However, Finn (2000), states that “the name ‘unstructured’ is a misnomer as no interview can have a total lack of structure”.

The comparison of this with the two previous types of interviews is that the “in depth interview provides enough freedom for respondents to steer the conversation, for example, to bring in all sorts of tangential matters, which, for them, have a bearing on the main subject” (Robinson, 1998). The study adopted the methodology of the structured in-depth interview, in addition to the above mentioned questionnaires, mostly because “at the root of in-depth interviewing is an interest in understanding the experience of other people and the meaning they make of that experience” (Seidman in Jordan and Gibson, 2004).

Interview questions 1-6

- From your analysis, what was the impact of trade liberalisation policy on wages, employment, and turnover of SME in Zimbabwe/South Africa?
- From your analysis, what was the impact of trade liberalisation policy reforms on the innovation ability of SMEs in Zimbabwe/South Africa?
- Give an assessment of the relationship between FDI and empowerment from SMEs point of view.
- Would you say there trade liberalisation improved the export and import activities of SMEs in Zimbabwe/South Africa? Motivate your answer.
- Would you say that trade liberalisation policy reforms led SMEs to relocate their businesses from one area to another? Motivate your answer.
- In summary, what would you say were the positives and negatives of trade liberalisation policy reforms on the operations of SMEs in Zimbabwe/South Africa?

5.4 Sampling method

The process of “*research is always constrained by a lack of time or resources hence the need to sample*” (Scheyvens and Storey, 2003). Sampling can be elaborated by different techniques , within the two main categories of non-probability and probability sampling (Scheyvens and Storey, 2003). This research adopted techniques within the realm of both probability and non-probability sampling: “non-probability samples are common when individuals are interviewed at source, as in visitor attractions, sporting events and so on” (Finn, 2000).

In this study, a combination of both stratified random sampling and simple random sampling was used and sampling was done in stages as follows:

Stage One-stratification of target population

The target population was first stratified into six different manufacturing sectors namely food processing, textiles and clothing, plastics and metal products and furniture. The choice of these sectors was premised on the fact that according to the Reserve Bank of Zimbabwe (RBZ) report (2010) these were noted as having the greatest contribution to the economic objectives of the country.

Stage Two-simple random sampling

This was primarily concerned with the choosing of participants. Simple random sampling, a method of selecting elements from the population such that each element has an equal chance of being selected to be part of the sample, was then used on the stratified sections. Respondents were selected randomly by way of putting the names of all the relevant members provided from the Ministry of SMEs into a box and picking the required number. The Ministry alerted the targeted respondents of the researcher's visit as well as the fact that the Ministry had cleared the researcher to proceed with his mission. Thus, targeted respondents knew in advance that a researcher would visit him/her to found out on matters pertinent to SMEs.

5.5 Problems occurring during the collection of primary data

As in any kind of research, the present investigation encountered a series of problems that led to possible study limitations. Time was a limiting factor as the researcher is employed. There were also budgetary constraints, as the funds available could not suffice to cater for the research.

5.5.1 Ethical and political issues

In doing research, especially when investigating people, there are generally a number of ethical issues of which the researcher must be aware of if he/she intends to conduct the research properly and at the same time show respect for the lives of people under consideration (Babbie, 2003). Consequently, the researcher put forward mechanisms to avoid, as much as possible, any ethical difficulty. Babbie (2003) asserts that being formal can greatly assist in ensuring that ethical issues are addressed. Key aspects on ethics are voluntary participation, no harm to the participants, and anonymity and confidentiality. "No one must be forced to participate" (Babbie, 1999). Consequently, the subject must not be forced to participate in the research by any means. The person(s) under study must, once requested, be free to take his/her own decision concerning their own ongoing participation in the project. It is a consequence of this matter that it was decided not to offer any form of compensation to the people that agreed to participate. It is believed that the possible compensation, for example, in the form of money or presents, could force, by necessity, some people to participate against their will. In addition, any possible payment could have 'directed' the answer of the respondent more towards the researcher's perspective. Secondly, "social research should never injure the people being studied, regardless of whether they volunteer or

not” (Babbie, 1999). Participants must not be harmed or put in danger because of particular questions. The definition of ‘harm’ of course includes not only physical but also, for example, psychological harm.

The point is that investigation techniques towards people should never ask for “information that would embarrass them or endanger their home life, friendships, jobs, and so forth” (Babbie, 1999). In this regard, the researcher did everything possible to avoid danger arising out of the questionnaires and ensured they have remained very case study oriented. These questionnaires thus do not require very ‘intimate’ answers and do not force anyone to respond to particular questions.

Anonymity and confidentiality issues were also taken into account. These matters are very important because they protect the respondent’s identity and protect him/her from possible consequences. Anonymity is when a respondent cannot be identified with a given response, while confidentiality regards the promise of the researcher not to disseminate, if not for the official agreed purpose, the research results.

Regarding these issues the researcher, before any interview, gave assurance of anonymity and confidentiality by reading a letter of informed consent. In addition, the researcher employed a code system for the answers: that is, the person involved in the investigation is identified numerically, or in the case of ‘officials’, without mentioning even the company the official belonged to. Finally, the researcher has signed and agreed to the university’s ethical document to conform to the institution’s ethical norms and policy on the above-mentioned issues.

5.6 Data analysis

This section explains how the data collected was analysed. Here it is less important to consider the type of source (primary or secondary), but rather to discuss the kind of data collected and how it was analysed. Fundamental for the outcome of the research, it should be remembered that “the essence of any analysis procedures must be to return to the terms of reference, statement of objectives, or hypotheses of the research and begin to sort and evaluate the information gathered in relation to the questions posed and the concepts identified” (Veal, 1992). Bearing in mind, the research aims and questions, two analytical tools are discussed: quantitative and, qualitative analysis.

5.6.1 Quantitative analysis

Quantitative analysis consists of “numerical representation and manipulation of observations for the purpose of describing and explaining the phenomena that those observations reflect” (Babbie, 2003). Descriptive statistics “merely summarise a set of sample observations [while] analysis involves the reduction of data from unmanageable details to manageable summaries” (Babbie, 2003).

5.6.2 Qualitative analysis

As noted by Kitchin and Tate (2000), qualitative analysis “consists of the description, classification, and making connections between the data [and the] process is more iterative than linear”.

The stages of research analysis can be briefly summarised as follows (Kitchin and &Tate, 2000):

- Description concerns the portrayal of data in a form that can be easily interpreted;
- Classification is when the researcher moves beyond data description and he/she tries to interpret and make sense of data; and
- Connection is concerned with the identification and understanding of the relationships and associations between different classes.

Using a building analogy, Kitchin and Tate (2000) explain the process as follows: “Our analysis consists of describing the yard’s material so that we know what we have and why, classifying the various forms into relevant building materials, and connecting the classes together to construct a coherent and stable structure.” It is important to understand the difference between classification and connection that is the core of the analysis.

Again using the same analogy:

... whereas classification concerns putting all bricks, frames, glass panes and beams in separate places (and classifying these according to types, size, etc.), making connections concerns how they fit together and relate to one another as a structure such as a house (Kitchin and Tate, 2000).

Qualitative analysis was used when working with participant observation, face-to-face interviews, and, indirectly, questionnaires. The researcher followed the above-mentioned process to analyse the qualitative information. Firstly, the data was 'described' through, for example, the transcription of the interview and representation of data in table and/or graph form. Secondly, the information was classified and regrouped, depending on the topic. Thirdly, the connection between classes was made to assist in the construction of the final results.

5.7 Coding of data

All the questions in the questionnaire were coded for easy classification. Coding involves assigning numbers or other symbols to answers so that responses can be grouped into a limited number of classes and categories. The classification of data into limited categories is necessary for efficient analysis. Coding assists the researcher to reduce a large number of replies into a few categories containing critical information required for analysis. Pre-coding is particularly helpful for data entry because it makes the intermediate step of completing a coding sheet unnecessary. Data can be accessed directly from the questionnaire (Cooper and Schindler, 2003).

5.8 Processing of data

The processing of the data was done with the assistance of statisticians in the Department of Statistics at the Tswane University of Technology, using SPSS, an integrated set of modules used for manipulating, analyzing, and presenting data. The SPSS package consists of a statistical number of written computer programs, which can be stored on computer. This relieved the researcher of the need for writing his own program. The SPSS program is also written to be flexible in terms of data that can be used, the minimum or maximum sample size, and the number of variables allowed (Cooper and Schindler 2003).

5.9 Validity and Reliability

According to Worthen (1993), validity is the degree to which an instrument accomplishes the purpose for which it is used. Cooper and Schindler (2001), asserts that a researcher may choose to use a panel of experts to judge how well the instrument meets standards or use his own judgment. The researcher studied the literature (books, journals, dissertations, theses) to determine how well the research instrument met standards. In addition, the assistance of the

Statistics Department at Tswane University of Technology was sought, to determine the validity of the research instrument.

Seaman (1987) defines reliability as the extent to which a specified measurement yields consistent observations of the same facts from one situation to another. In other words, reliability refers to whether a study done, may be replicated.

The following measures were employed to improve validity and reliability of the research instruments,

- The study included a large sample the outcome of which is likely to be more accurate than a smaller one.
- The study carried out a pilot study, which provided a lot of learning points in improving reliability.
- There was a brief explanation of both the purpose of the study and the content of the questionnaire by the interviewer prior to the administering of the questionnaire.
- Questions asked in the questionnaire were directly derived from the objectives of the study. Each question was essential for fulfilling a specific objective.
- Key questions were provided with more than one question. These multiple questions complemented each other in revealing the maximum possible information about the magnitude of the problem being probed.
- Questions were straightforward and easy to comprehend to cater for the different intellectual capacities of the various respondents.
- Finally, the study also pre-tested the research instrument and obtained valuable information that contributed in structuring the research instrument so that it could improve validity of the results.

5.10. Summary.

The research design constitutes the base on which a research question is developed. Research methodology relates to the choice of the specific research methods that were used to collect and analyse the data to verify the hypothesis built on the theoretical framework. The methodology used in the current study was the use of a structured questionnaire complemented by structured interviews to key informants. This study is comparative in nature and used a qualitative research method, the research format was descriptive. A combination of

stratified and random sampling techniques was employed to identify the sample. Questions for the study were developed directly from each of the research objectives. Among the measures taken to ensure validity and reliability of results was the commissioning of a pilot study which provided a lot of learning points in improving reliability. In addition, key questions were provided with more than one question. These multiple questions complemented each other in revealing the maximum possible information about the magnitude of the problem being probed. The next chapter addresses research analysis and results.

CHAPTER SIX

RESEARCH ANALYSIS AND RESULTS

6.1 Introduction

In chapter five, it was stressed that the methodology used in the study was the use of a structured questionnaire complemented by structured interviews to key informants. It was also noted that the study is comparative in nature and used a qualitative research method and that a combination of stratified and random sampling techniques was employed to identify the sample. Questions for the study were developed directly from each of the research objectives. Among the measures taken to ensure validity and reliability of results was the commissioning of a pilot study which provided a lot of learning points in improving reliability.

This chapter focuses on the analysis and interpretation of the study results. The analysis and interpretation will be done along the following sub headings namely; biographical details of the respondents; impact of trade liberalisation policy reforms on employment, wages and turnover of SMEs; influence of trade liberalisation policy reforms on the ability of SMEs to carry out innovation; impact of trade liberalisation policy reforms on the ability of SMEs to attract foreign direct investment; and impact of trade liberalisation policy reforms on the import and export initiatives of SMEs.

6.2 Section One: Biographical details

Gender of respondents (Q1)

The question sought to find the gender of the respondents. The objective was to determine whether there has been a change in the pattern on business involvement along gender lines.

The outcome of this study, however, shows that more than half (60%) of the respondents in Zimbabwe are men. Likewise, results from South Africa's SMEs showed that nearly three quarters (67%) of the entrepreneurs are men.

Table 6.1 Gender of respondents

Zimbabwe			South Africa		
Gender	Frequency	%	Gender	Frequency	%
Female	54	40	Female	38	33
Male	81	60	Male	77	67
Total	135	100	Total	115	100

Age range of respondents (Q2)

It was necessary to establish if age is a factor in the successful running of a business. The study showed that more than half (68%) of the respondents in Zimbabwe and more than three quarters (84%) for South African SMEs belong to the 30 to 50-year age range.

The study also showed that Zimbabwe has more entrepreneurs than South Africa in the 18-30 age group (28% for Zimbabwe SMEs, as opposed to 10% for South African SMEs).

Table 6.2 Age range of SMEs

Zimbabwe			South Africa		
Age group	Frequency	%	Age group	Frequency	%
18-30	38	28	18-30	11	10
31-50	92	68	31-50	97	84
Above 50	5	4	Above 50	7	6
Total	135	100	Total	115	100

Highest level of education (Q3)

The objective of the question was to ascertain the extent to which educational qualification was a factor, in the successful running of SMEs in Zimbabwe and South Africa. Results from the study show that almost a third (31%) of the respondents in Zimbabwe's SMEs hold an advanced level qualification, another one third (31%) hold a post advanced level certificate, ten percent are diploma holders, nineteen percent (19 %) are degree holders and seven

percent (7%) had post-degree qualifications. No attempt was made to determine the matter studied; however, the assumption was that any type of study would be beneficial in the successful running of a business.

From South Africa's perspective, the study revealed that fifteen percent (15%) of the respondents had matriculated, thirty four percent (34%) were certificate holders, one quarter of the respondents (25 %) held diploma certificates, one tenth (10 %) had degrees and six percent (6%) had post-graduate qualifications. The outcome suggests that most of the respondents in Zimbabwe and South Africa are educated enough to be able to successfully run a business.

Table6.3 Educational levels of SMEs

Zimbabwe			South Africa		
Educational Level	Frequency	%	Educational Level	Frequency	%
Below "O" Level or Matric	2	2	Below "O" Level or Matric	11	10
Advanced Level or Matric	42	31	Advanced Level or Matric	17	15
Certificate	42	31	Certificate	39	34
Diploma	13	10	Diploma	29	25
Degree	26	19	Degree	12	10
Postgraduate	10	7	Postgraduate	7	6
Total	135	100	Total	115	100

Legal status of business (Q4)

An understanding of the legal status of the respondents would explain certain trends, such as the involvement of foreigners, export initiatives, appetite for FDI and import and export initiatives.

The response showed that more than two thirds (68%) of SMEs in Zimbabwe have sole ownership. In South Africa, more than half of SMEs (54 %) have sole ownership.

Table 6.4 Legal status of SMEs

Zimbabwe			South Africa		
Status	Frequency	%	Status	Frequency	%
Sole owner	92	68	Sole owner	63	55
Private Limited Company	19	14	Private Limited Company	31	27
Cooperative	3	2	Cooperative	7	6
Partnership	21	16	Partnership	14	12
Total	135	100	Total	115	100

Products manufactured (Q5)

The results indicated food processing as the most popular product manufactured by respondents, accounting for close to two fifth (38%) of respondents in Zimbabwe and nearly half (47%) in South Africa. The results are consistent with those by previous researchers (Mather, 2005; Zindiye, 2008). The results show that the clothing and footwear sector is still a preference for manufacturing SMEs in both Zimbabwe and South Africa, despite an influx of cheap materials from Asia and the Middle East (CZI, 2013).

Table 6.5 Type of product manufactured by SMEs

Zimbabwe			South Africa		
Factor	Frequency	%	Factor	Frequency	%
Food processing	51	38	Food processing	54	47
Clothing and footwear	37	27	Clothing and footwear	27	24
Metal and plastic	15	11	Metal and plastic	12	10
Furniture	32	24	Furniture	22	19
Total	135	100	Total	115	100

Title in the business (Q6)

The question sought to determine the status of the respondents in the business. The result showed that more than three quarters (86%) of SMEs in Zimbabwe were owner-managed. Similar trends were observed in South Africa where more than two thirds (68%) of the SMEs are owner managed. These results indicated that most SMEs in Zimbabwe and South Africa are owner-managed and this could be a major influence when it came to decision making.

Table 6.6 Title of respondents by SMEs

Zimbabwe			South Africa		
Title	Frequency	%	Title	Frequency	%
Owner	116	86	Owner	78	68
Manager	19	14	Manager	37	32
Total	135	100	Total	115	100

Timeframe since business opened (Q7)

This question sought to determine the survival rate of SMEs. The results showed that more than half (56%) of the SMEs in Zimbabwe have been in business for less than ten years.

For South Africa, the study revealed that nearly half of the SMEs were started between ten to twenty years ago.

Table 6.7 When business was opened

Zimbabwe			South Africa		
Years	Frequency	%	Years	Frequency	%
<10 year ago	76	56	<10 year ago	32	28
10-20 years ago	54	40	10-20 years ago	56	48
20-30 years ago	2	2	20-30 years ago	17	15
>30 years ago	3	2	>30 years ago	10	9
Total	135	100	Total	115	100

6.3 Section Two. Impact of trade liberalisation policy reforms on employment, wages, and turnover of SMEs [Questions 8-11]

Impact of trade liberalisation policy on employment figures (Q8)

The study showed that nearly three quarters (73 %) of the respondents felt that trade liberalisation policy reforms in Zimbabwe had negatively impacted on employment creation among SMEs. Over one fifth (22%) of the respondents felt that trade liberalisation policies had no impact on employment creation, while five percent (5%) noted that trade liberalisation had positively impacted on employment creation among SMEs.

In South Africa, more than half of the respondents (56%) respondents said that trade liberalisation had negatively impacted on employment creation among SMEs. About a quarter of the respondents (25%) said the reforms had no impact on employment creation while almost one fifth (19%) noted that reforms created employment opportunities.

Table 6.8 Impact of trade liberalisation policy on employment by SMEs

Zimbabwe			South Africa		
Impact	Frequency	%	Impact	Frequency	%
No impact	30	22	No impact	29	25
Negative impact	98	73	Negative impact	64	56
Positive impact	7	5	Positive impact	22	19
Total	135	100	Total	115	100

Impact of trade liberalisation policy on turnover of SMEs (Q9)

The results from the study showed that more than three quarters (84%) of the respondents from Zimbabwe's SMEs said that trade liberalisation negatively impacted on their turnover. Ten percent (10%) said the reforms did not have impact on their turnover while six percent (6%) said trade reforms increased the turnover of their businesses.

From South Africa's perspective, the findings were that more than half of the respondents (57%) rated trade liberalisation reforms as having led to reduced turnover. A quarter of the respondents (25%) said the reforms had no impact on the turnover of their businesses, while close to one fifth (18%) said the reforms increased the turnover of their businesses.

Table 6.9 Impact of trade liberalisation policies on turnover of SMEs

Zimbabwe			South Africa		
Impact	Frequency	%	Impact	Frequency	%
No impact	14	10	No impact	29	25
Negative impact	114	84	Negative impact	65	57
Positive impact	7	6	Positive impact	21	18
Total	135	100	Total	115	100

Impact of trade liberalisation policy on the wage bill of SMEs (Q10)

Nearly a quarter (22%) of the respondents from Zimbabwe's SMEs said that the reforms had no effect on the wage bill, nearly three quarters (73%) said the reforms negatively affected their wage bill, while five percent (5%) said the reforms had a positive effect on their wage bill.

In South Africa, less than half (45%) of the respondents said the reforms had no effect on the wage bill, one third (33%) said the reforms negatively influenced the wage bill; while more than one fifth (22%) said the reforms positively affected their wage bill.

Table 6.10 Impact of trade liberalisation policies on SMEs' wage bill

Zimbabwe			South Africa		
Impact	Frequency	%	Impact	Frequency	%
No impact	29	22	No impact	52	45
Negative impact	99	73	Negative impact	38	33
Positive impact	7	5	Positive impact	25	22
Total	135	100	Total	115	100

6.4 Section Three. Influence of trade liberalisation policy reforms on the ability of SMEs to carry out innovation [Questions 11-20]

Whether the entity has carried out any innovation (Q11)

The results for SMEs in Zimbabwe indicate that more than three quarters (86%) of the respondents did not carry out any form of innovation. In South Africa, the results show that more than three quarters (77%) of respondents did not carry out any form of innovation.

Table 6.11 Whether SMEs carried out innovation

Zimbabwe			South Africa		
Response	Frequency	%	Response	Frequency	%
No	116	86	No	89	77
Yes	19	15	Yes	26	23
Total	135	100	Total	115	100

Nature of innovation you carried out (for those that carried out innovation) (Q12)

Results for Zimbabwe's SMEs show that nearly three quarters (74%) of the SMEs that carried out innovation did product, rather than process, innovation. Similarly, the results from South Africa's perspective showed that more than three quarters (89%) of the SMEs carried out product innovation. On the comments section some respondents in Zimbabwe noted that they were driven to carry out product innovation, as a means to escape from the twin challenges of external competition, and internal macro-economic instability.

Table 6.12 Nature of the innovation undertaken by SMEs

Zimbabwe			South Africa		
Response	Frequency	%	Response	Frequency	%
Process	5	26	Process	3	11
Product	14	74	Product	23	89
Total	19	100	Total	26	100

Factors that led SMEs to carry out innovation (Q13)

Results obtained show that nearly three quarters (74%) of the respondents from Zimbabwe cited local market as the push factor for innovation. Results from South African SMEs show that nearly half (46%) of the respondents indicated that they were pushed into innovation by competition from the international market. Quality improvement was the least cited factor in both Zimbabwe and South Africa (0% in Zimbabwe and 12% in South Africa).

Table 6.13 Factors that pushed SMEs to innovate

Zimbabwe			South Africa		
Factors	Frequency	%	Factors	Frequency	%
Local market	14	74	Local market	6	23
International market	4	21	International market	12	46
Quality improvement	0	0	Quality improvement	3	12
Cost reduction	1	5	Cost reduction	5	19
Total	19	100	Total	26	100

Stakeholders who assisted SMEs in carrying out innovation (Q14)

Results from the respondents for SMEs in Zimbabwe showed that more than three quarters (90%) of the SMEs that carried out innovation did so **without** any direct support from other agencies. Similarly, SMEs in South Africa did not receive any meaningful support when innovating. More than three quarters (77%) of the respondents indicated that they innovated without any external support.

Table 6.14 Stakeholders who assisted SMEs with innovation

Zimbabwe			South Africa		
Stakeholder	Frequency	%	Stakeholder	Frequency	%
None	17	90	None	20	77
Local MNCs	2	10	Local MNCs	0	0
Other local partners	0	0	Other local partners	6	23
International partners	0	0	International partners	0	0
Total	19	100	Total	26	100

Impact of innovation on SMEs business competitiveness (Q15)

More than three quarters (79%) of the SMEs that carried out innovation in Zimbabwe noted that such innovation had a high level of impact on business competitiveness. The remainder (21%) however, did not witness any impact on their competitiveness.

Results from South African SMEs showed similar trends to those of Zimbabwe. Nearly two thirds (62%) of the SMEs that carried out innovation said such innovation had a high impact on business competitiveness.

Table 6.15 Impact of innovation on competitiveness by SMEs

Zimbabwe			South Africa		
Impact	Frequency	%	Impact	Frequency	%
No Impact	4	21	No Impact	9	34
Low Impact	0	0	Low Impact	1	4
High Impact	15	79	High Impact	16	62
Total	19	100	Total	26	100

Whether innovation in SMEs was influenced by trade liberalisation policy (Q16)

The study revealed that nearly two thirds (63%) of the SMEs from Zimbabwe indicated that they were driven to innovate by trade liberalisation. Nearly a third (29%) of SMEs that carried out innovation said they were not sure whether they could attribute their innovation initiative to trade liberalisation. Most of the SMEs who were not sure on the impact of trade liberalisation to their innovation attributed their dilemma to the fact that trade liberalisation was done simultaneously when the economy was experiencing challenges. They could therefore not separate between trade liberalisation and economic decline.

Results for SMEs in South Africa were, however, different. More than one third (39 %) of the SMEs were not sure whether to attribute their innovation to trade liberalisation reforms. Another two fifths however, attributed innovation to trade liberalisation. The remainder (22%) of the SMEs felt that their innovation could be attributed to other factors, apart from trade liberalisation policy reforms, although they struggled to mention them.

Table 6.16 Whether innovation by SMEs was influenced by trade liberalisation

Zimbabwe			South Africa		
Response	Frequency	%	Response	Frequency	%
Not sure	7	29	Not sure	10	39
Disagree	2	8	Disagree	6	22
Agree	10	63	Agree	10	39
Total	19	100	Total	26	100

Impact of innovation on employment in SMEs (Q17)

More than half (63%) of Zimbabwe's SMEs said innovation had no impact on their employment statistics. Sixteen percent (16%) said innovation had low impact, while more than one fifth (21%) said innovation had a high impact on the employment statistics.

Results from South Africa's SMEs show that more than three quarters (84%) of the respondents said the innovation had no impact on the number of workers employed, less than one tenth (8%) said the innovation had a minimal effect, while eight percent (8%) said the innovation had a high impact on the number of workers employed.

Table 6.17 Impact of innovation on employment by SMEs

Zimbabwe			South Africa		
Impact	Frequency	%	Impact	Frequency	%
No impact	12	63	No impact	22	84
Low impact	3	16	Low impact	2	8
High impact	4	21	High impact	2	8
Total	19	100	Total	26	100

Possible reasons why some SMEs did not carry out any innovation [for those SMEs that did not carry out innovation] (Q18)

Given the importance attached to innovation, it becomes critical to identify why most of the SMEs failed to carry out any form of innovation.

Over half of those respondents who did not innovate (58%) in Zimbabwe's SMEs, cited lack of expertise as a deterrent factor in their failure to do any innovation, while more than one third (34%) cited poor financial resources. The remainder (8%) said that they did not see the need and were content with the way they were running their business.

In South Africa, the results showed that more than one quarter (27%) of the respondents that did not carry out innovation were let down by lack of expertise to innovate. More than half (53%) cited lack of resources as the deterrent, while one fifth (20%) said that they saw no need to innovate.

Table 6.18 Why some SMEs did not undertake innovation

Zimbabwe			South Africa		
Factor	Frequency	%	Factor	Frequency	%
Lack of expertise	67	58	Lack of expertise	24	27
Poor financial resources	39	34	Poor financial resources	47	53
Saw no need	10	8	Saw no need	18	20
Total	116	100	Total	89	100

Belief on ability to can carry out innovation in the future (Q19)

One third (33%) of the respondents from SMEs in Zimbabwe said they believe they would be able to innovate in the future. Nearly a quarter (22%) said they would not be able to carry out innovation in the future. Nearly half (45%) of the respondents said they were not sure whether they would be able to carry out innovation in the future. Comments from the filled questionnaire revealed that those who responded in the negative mentioned that while they saw the necessity to innovate; their technological and monetary resource abilities did not allow them to do that.

In South Africa, more than half of the respondents (53%) said they would be able to innovate in the future. Nearly one quarter (23%) of the respondents said they would not be able to carry out innovation in the future, while another one quarter (24%) was not sure about their ability to innovate in the future.

Table 6.19 Whether SMEs believe they can innovate in the future.

Zimbabwe			South Africa		
Responses	Frequency	%	Responses	Frequency	%
Yes	45	33	Yes	62	53
No	29	22	No	26	23
Not sure	61	45	Not sure	27	24
Total	135	100	Total	115	100

Perceptions by SMEs on how they will be affected by technological innovation in the next 10 years (Q20)

About one fifth (19%) of the respondents for SMEs in Zimbabwe feel that innovation will have no impact on their business, nearly one quarter (24%) feel that innovation will negatively affect their business, and more than half (57%) believe that innovation will positively influence their business.

In South Africa, less than one tenth (8%) of the respondents feel that innovation will have no impact in the next 10 years, nine percent (9%) feel that innovation will have a negative impact, while more than three quarters (83%) believe that innovation will have a positive effect on their business in the next 10 years. The results show that while there is a sense of optimism about the ability of innovation to pull businesses of SMEs in both Zimbabwe and South Africa, the fact is that more South African SMEs are optimistic, compared to their Zimbabwean counterparts (84% from South Africa as opposed to 57% from Zimbabwe).

Table 6.20 Impact on technological innovation by SMEs in the next 10 years

Zimbabwe			South Africa		
Impact	Frequency	%	Impact	Frequency	%
No impact	26	19	No impact	9	8
Negative impact	32	24	Negative impact	10	9
Positive impact	77	57	Positive impact	96	83
Total	135	100	Total	115	100

6.5 Section Four: Impact of trade liberalisation policy reforms on FDI and on Empowerment for SMEs [Questions 21-28]

Whether there has been a change in ownership (involving foreigners) of business in the last 10 years (Q21)

The study showed that more than three quarters (89%) of the respondents for SMEs in Zimbabwe said there has not been a change in ownership involving foreigners. Similarly, results from South African SMEs show that more three quarters (86%) of the respondents said there has not been a change in ownership involving foreigners.

Table 6.21 Whether there has been a change of ownership involving foreigners in SMEs.

Zimbabwe			South Africa		
Ownership	Frequency	%	Ownership	Frequency	%
No	120	89	No	99	86
Yes	15	11	Yes	16	14
Total	135	100	Total	115	100

If there have not been changes in the ownership (foreign) structure of your business in the past 10 years, rank the possible reason (Q22).

Less than one tenth (7%) of the respondents from Zimbabwe SMEs said they saw no need. Nearly two thirds (63%) said they failed to secure international partners, sixteen percent

(16%) stated that they did not trust the international investors; fourteen percent (14%) said they wanted to maintain control of their enterprises.

In South Africa, the study shows that just less than one quarter (22%) said they saw no need to invite foreign investors. More than one third (38%) indicated that they could not secure foreign investors, while one third of the respondents (30%) cited distrust of foreigners as a factor. One tenth (10%) of the respondents said they wanted to maintain control of their enterprise.

Table 6.22 Factors that have caused some SMEs not to change ownership

Zimbabwe			South Africa		
Response	Frequency	%	Response	Frequency	%
Saw no need	8	7	Saw no need	22	22
Failure to secure foreign partners	76	63	Failure to secure foreign partners	38	38
Distrust for foreigners	19	16	Distrust for foreigners	30	30
Need to maintain control	17	14	Need to maintain control	9	10
Total	120	100	Total	99	100

Possible reasons for incorporating foreigners into business (for the SMEs that incorporated foreign partners) (Q23)

More than three quarters (80%) of the SMEs that invited foreign investors in Zimbabwe did so because they wanted to secure funding for their businesses. The remainder (20%) were influenced by the need to remain competitive.

In South Africa, three quarters (75%) of the respondents that invited foreign ownership did so in order to secure funding. Only one respondent (6%) was motivated by the need for management expertise and less than one fifth (19%) were motivated by the need to remain competitive. On the comments section of the questionnaire, some respondents from South African SMEs said they felt marginalised by funding agencies.

Table 6.23 Factors that led to SMEs involving foreign nationals as shareholders in the business

Zimbabwe			South Africa		
Factor	Frequency	%	Impact	Frequency	%
Need to secure external funding	12	80	Need to secure external funding	12	75
Need for management expertise	0	0	Need for management expertise	1	6
Need to remain competitive	3	20	Need to remain competitive	3	19
Total	15	100	Total	16	100

Impact of empowerment initiatives on SMEs ability to attract FDI (Q24)

Results from SMEs in Zimbabwe show that less than one fifth (16%) said the empowerment policy had no impact on their ability to attract foreign investors. Close to three quarters (70%) of the respondents said that the empowerment policy negatively influenced their efforts to attract foreign investors and fourteen percent (14%) noted that the empowerment policy positively affected their efforts to attract foreign investment.

Results for South Africa's SMEs show that more than one third (36%) of the respondents indicated that the empowerment policy did not affect their efforts to secure foreign investment. More than half (56%) said that the empowerment policy had a negative effect on their efforts to lure foreign investment. Less than one tenth (8%) said that the empowerment policy had a positive influence on their efforts to obtain foreign investment.

Table 6.24 Effect of empowerment on SMEs ability to attract FDI

Zimbabwe			South Africa		
Impact	Frequency	%	Impact	Frequency	%
No impact	21	16	No impact	41	36
Negative impact	95	70	Negative impact	65	56
Positive impact	19	14	Positive impact	9	8
Total	135	100	Total	115	100

Impact of empowerment on profitability (Q25)

Results for SMEs in Zimbabwe show that sixteen percent (16%) of the respondents replied that empowerment had no effect on the profitability of their businesses. Nearly two thirds (62%) noted that empowerment negatively influenced the profitability of their businesses. More than one fifth (22%) said that empowerment had positively contributed to the profitability of their businesses.

In South Africa, nearly half (44%) of the respondents said that empowerment had no impact on the profitability of their businesses. Forty one percent (41%) said that empowerment policy negatively affected the profitability of their businesses. Less than one fifth (15%) said that the empowerment policy had positively contributed to the profitability of their businesses.

Table 6.25 Impact level of empowerment on profitability by SMEs

Zimbabwe			South Africa		
Impact	Frequency	%	Impact	Frequency	%
No impact	21	16	No impact	51	44
Negative impact	84	62	Negative impact	47	41
Positive impact	25	22	Positive impact	17	15
Total	135	100	Total	115	100

Potential impact of empowerment on profitability in the next ten years (Q26)

Close to one fifth (19%) of the respondents from SMEs in Zimbabwe stated that the empowerment policy would have no effect on the profitability of their businesses going forward. Close to two thirds (60%) indicated that the empowerment policy would influence their future profitability negatively, while more than one fifth (21%) stated that the empowerment policy would contribute positively to the profit of their business in the future. These results largely confirm the findings from the previous question. In other words, empowerment policies have negatively affected the profitability of most SMEs in Zimbabwe and respondents do not believe that this will change in the next 10 years.

In South Africa, more than half of the respondents (53%) believe that empowerment policies will have no impact on the profitability of their business in the next 10 years, thirty seven percent (37%) stated that the empowerment policy will have a negative effect on the profitability of their business in the next 10 years, while one tenth (10%) indicated that the empowerment policy will contribute positively to the profits of their business in the next 10 years.

Table 6.26 Potential effect of empowerment on profitability of SMEs in the next 10 years

Zimbabwe			South Africa		
Impact	Frequency	%	Impact	Frequency	%
No impact	25	19	No impact	61	53
Negative impact	81	60	Negative impact	43	37
Positive impact	29	22	Positive impact	11	10
Total	135	100	Total	115	100

Impact of empowerment on the attraction of FDI at SMEs in the next ten years (Q27)

Results showed that more than three quarters (87%) of the respondents in Zimbabwean SMEs indicated that empowerment policies will negatively affect attempts to acquire foreign direct investment. Five percent (5%) believe that empowerment policies will have no influence on efforts to acquire foreign direct investment and eight percent (8%) indicated that empowerment policies will have a positive effect in attracting foreign direct investment.

In contrast, most South African SMEs stated that empowerment initiatives will have no effect on the attraction of foreign capital in the future. Results show that more than half of the respondents (54%) indicated that empowerment policies would have no influence on efforts to attract FDI in the next 10 years. Close to two fifth (39%) believe that empowerment policies will negatively affect efforts to attract FDI and seven percent (7%) believe that empowerment policies will positively influence the attraction of foreign direct investment in the next 10 years.

Table 6.27 Effect of empowerment on FDI in the next 10 years

Zimbabwe			South Africa		
Impact	Frequency	%	Impact	Frequency	%
No impact	7	5	No impact	62	54
Negative impact	118	87	Negative impact	45	39
Positive impact	10	8	Positive impact	8	7
Total	135	100	Total	115	100

Effect of empowerment policy on employment creation at SMEs (Q28)

Results for Zimbabwe SMEs showed that sixteen percent (16%) of the respondents said the empowerment policy had no effect on employment creation. Close to three quarters (73%) indicated that empowerment had negatively influenced employment creation among the SMEs. Just over one tenth (11%) said that empowerment had positively contributed to employment creation. The results suggest that most SMEs believe that empowerment policies have added to unemployment statistics in Zimbabwe.

In South Africa, results showed that more than two fifth (43%) feel that empowerment initiatives have a negative effect on job creation. More than one third (34%) believe that the empowerment initiative will not influence job creation. Close to one quarter (23%) of the respondents believe that empowerment policies have a positive effect on employment creation. Zimbabwe and South Africa's results show that empowerment, in its current form, has negatively influenced employment creation among the SMEs in the two countries.

Table 6.28 Influence of empowerment on employment by SMEs

Zimbabwe			South Africa		
Impact	Frequency	%	Impact	Frequency	%
No impact	22	16	No impact	39	34
Negative impact	98	73	Negative impact	49	43
Positive impact	15	11	Positive impact	27	23
Total	135	100	Total	115	100

6.6 Section Five. Impact of trade liberalisation policy reforms on import and export initiatives of SMEs

Whether SMES import some raw materials/products (Q29)

Results from SMEs in Zimbabwe show that close to half (44%) of the respondents import all or some of their goods/raw materials, with the remainder relying on the domestic market.

In contrast close to one fifth (19%) of the SMEs in South Africa said they import goods/raw material, while the remainder rely on the domestic industry.

Table 6.29 Number of SMEs involved in product/raw material imports

Zimbabwe			South Africa		
Response	Frequency	%	Response	Frequency	%
Importing	59	44	Importing	22	19
Not importing	76	56	Not importing	93	81
Total	135	100	Total	115	100

Source of imports for SMES (for those importing) (Q30)

Results from SMEs in Zimbabwe show that half (50%) of the respondents import their raw materials and products from Africa, more than one third (36%) import from Asia, seven percent (7%) import from Europe, about five percent (5%) import from Australia and two percent (2%) import from America. These results are inconsistent with those of CZI (2013), which noted that Zambia had overtaken South Africa in becoming the number one source of

imports into Zimbabwe and destination on exports. Results from SMEs in South Africa, show that more than four fifth of SMEs that import (82%) are importing from Asia, and the remainder from Africa.

Table 6.30 Source of imports by SMEs

Zimbabwe			South Africa		
Region	Frequency	%	Region	Frequency	%
Africa	30	50	Africa	4	18
America	1	2	America	0	0
Asia	21	36	Asia	18	82
Europe	4	7	Europe	0	0
Australia	3	5	Australia	0	0
Total	59	100	Total	22	100

Whether SMEs export or rely solely on the domestic market (Q31)

Results from SMEs in Zimbabwe show that close to one third (31%) of the respondents indicated that they are exporting some or all of their products, with the remainder relying on the domestic market. Results from SMEs in South Africa showed that close to a quarter of the respondents (24%) indicated that they export some or all of their products, while the remainder rely on the domestic market.

Table 6.31 Number of SMEs exporting

Zimbabwe			South Africa		
Response	Frequency	percent	Response	Frequency	%
Exporting SMEs	42	31	Exporting SMEs	27	24
Non-exporting SMEs	93	69	Non-exporting SMEs	88	76
Total	135	100	Total	115	100

**Factors that influenced SMEs to export products (for those that export their products)
(Q32)**

Results from the study showed that two fifth (40%) of exporting SMEs in Zimbabwe said they exported their goods in order to obtain foreign currency. More than half (55%) said they were pushed by the need to remain competitive. Results from Zimbabwe demonstrate that the dominant factor for exporting was centred on countering competitive pressures, as well as the need to attract foreign currency, which served the twin purposes of payment for imports and also a store of value, as the local currency became almost worthless (World Bank, 2008).

Results for SMEs in South Africa show that more than three quarters (81%) of the respondents went into exports due to increased competition on the domestic market, while the remainder were motivated by the need to acquire technology. While SMEs in both countries are experiencing competitive pressures due to the trade liberalisation, Zimbabwean SMEs also have to contend with the shortage of foreign currency (World Bank, 2008).

Table 6.32 Factors that influenced the decision to export by SMEs

Zimbabwe			South Africa		
Factor	Frequency	%	Factor	Frequency	%
Need to attract foreign currency	17	40	Need to attract foreign currency	0	0
Need to attract technology	2	5	Need to attract technology	5	18
Need to improve competitiveness	23	55	Need to improve competitiveness	22	82
Total	42	100	Total	27	100

Impact of exports on SMEs business turnover (Q33)

Results for SMEs in Zimbabwe show that more than half (57%) of the respondents indicated that exports had a low impact on their turnover; close to one fifth (19%) said the exports had

no impact, while close to one quarter (24%) stated that exports had a high impact on their turnover. These results show that the majority of SMEs in Zimbabwe are yet to meaningfully engage in exports. These results are consistent with the study done by Mpofu (1998), which indicated that exports contributed only 15 percent of the SMEs turnover.

Results from SMEs in South Africa show that more than one quarter (26%) of the respondents indicated that exports had a low impact on their business turnover. More than one tenth (11%) indicated that the exports had a no impact, while more than three fifth (63%) indicated that exports had a high impact on their business turnover.

Table 6.33 Impact of exports on turnover by SMEs

Zimbabwe			South Africa		
Impact	Frequency	%	Impact	Frequency	%
Low impact	24	57	Low impact	7	26
No impact	8	19	No impact	3	11
High impact	10	24	High impact	17	63
Total	42	100	Total	27	100

Impact of exports on employment creation at SMEs (Q34)

Results from the study show that more than one third (36%) of the respondents from SMEs in Zimbabwe indicated that exports had a low impact on employment, close to half (48%) noted that exports had no impact on employment, while less than one fifth (16%) stated that exports had a high impact on employment statistics. The results suggest that most SMEs in Zimbabwe feel that exports have not made a meaningful contribution to employment creation. This is not surprising, given the fact that the results also indicate that the influence of exports on turnover, has been insignificant thus far.

Results from SMEs in South Africa show that one third (30%) of the respondents said that exports had a low impact of employment creation, more than half (56%) stated that exports had no impact on employment creation and fourteen percent (14%) showed that exports had a high impact on employment creation. A comparison of the results of SMEs in Zimbabwe and South Africa show that exports have made little impact on employment in both countries.

Table 6.34 Influence of exports on employment by SMEs

Zimbabwe			South Africa		
Impact	Frequency	%	Impact	Frequency	%
Low impact	15	36	Low impact	8	30
No impact	20	48	No impact	15	56
High impact	7	16	High impact	4	14
Total	42	100	Total	27	100

Impact of exports on technological innovation at SMEs (Q35)

Results from SMEs in Zimbabwe show that more than two thirds (69%) of exporting SMEs said that exports had a minimal effect on their ability to innovate. Close to one fifth (19%) stated that exports did not have any impact on innovation and twelve percent (12 %) indicated that exports had a high influence on their innovation ability.

Similarly, results from SMEs in South Africa show that nearly three quarters (70%) of the exporting respondents mentioned that exports had a low impact on innovation. Five respondents (19%) said that exports had no effect on their innovation ability. Eleven percent (11%) indicated that exports had a high level of impact on their innovation.

Table 6.35 Impact of exports on technological innovation by SMEs

Zimbabwe			South Africa		
Impact	Frequency	%	Impact	Frequency	%
Low impact	29	69	Low impact	19	70
No impact	8	19	No impact	5	19
High impact	4	12	High impact	3	11
Total	42	100	Total	27	100

Factors that have had the greatest impact on SMEs export initiative (Q36)

Results showed that more than two fifth (43%) of the respondents for SMEs in Zimbabwe indicated that export licensing requirements have the greatest effect on export initiatives.

Nineteen percent (19%) of the respondents cited standards as the most important factor that influences their export initiatives. More than a one quarter (26%) of the respondents named bureaucratic delays, while twelve percent (12%) cited that foreign exchange controls had the greatest impact on their exports.

Results for SMEs from South Africa show that one third (33%) of the respondents mentioned export licensing requirements, as having the greatest influence on their export initiatives, more than one fifth (22%) cited standards, and more than two fifth (45%) cited bureaucratic delays. The results for SMEs in South Africa suggest that a greater percentage of SMEs involved in exports regard bureaucratic delays as a major concern for them.

Table 6.36 Factors that have the greatest level of impact on exports by SMEs

Zimbabwe			South Africa		
Factor	Frequency	%	Factor	Frequency	%
Export licensing requirements	18	43	Export licensing requirements	9	33
Standards	8	19	Standards	6	22
Bureaucratic delays	11	26	Bureaucratic delays	12	45
Foreign exchange controls	5	12	Foreign exchange controls	0	0
Total	42	100	Total	27	100

Destination of export for SMEs (Q37)

Results for SMEs in Zimbabwe showed that more than half of the respondents (57%) indicated that they export to African countries, more than one quarter (26%) export to Asia and seventeen percent (17%) export to Europe. The results indicate that most SMEs in Zimbabwe export to African countries.

In South Africa, the results show that more than half (59%) of the exporting SMEs export to Asia, more than one fifth (22%) export to Europe, fifteen percent (15%) export to African market and the remainder (4%) export to Australia.

Table 6.37 Export market destinations for SMEs

Zimbabwe			South Africa		
Region	Frequency	%	Region	Frequency	%
Africa	24	57	Africa	4	15
America	0	0	America	0	0
Asia	11	26	Asia	16	59
Europe	7	17	Europe	6	22
Australia	0	0	Australia	1	4
Total	42	100	Total	27	100

Reasons for not exporting (for those SMEs not exporting) (Q38)

Results for SMEs in Zimbabwe show that nearly half (46%) of the SMEs that are not exporting cited lack of expertise on exports, more than one third (37%) cited lack of resources, fourteen percent (14%) pointed to unfavourable export regulations and three percent (3%) said they felt satisfied with the domestic market.

The results for SMEs in South Africa show that more than one fifth (22%) of the respondents noted that they are not exporting because they are satisfied with the local market. Less than one tenth (9%) named unfavourable export regulations, more than two fifth (44%) mentioned the lack of expertise in exports, while one quarter (25%) pointed to a lack of resources to expand into export market.

Table 6.38 Reasons why some SMEs are not involved in exports

Zimbabwe			South Africa		
Reason	Frequency	%	Reason	Frequency	%
No need due to local market sufficiency	3	3	No need due to sufficient local market	19	22
Unfavourable export regulations	13	14	Unfavourable export regulations	8	9
Lack of knowhow on exports	43	46	Lack of knowhow on export	39	44
Lack of resources to expand into exports	34	37	Lack of resources to expand into exports	22	25
Total	93	100	Total	88	100

Whether SMEs have plans to export in the next ten years (Q39)

The results for SMEs in Zimbabwe show that nearly all (95%) of the respondents alluded to the fact that they want to be involved in exports in the next 10 years. In South Africa, nearly two thirds (60%) said that they would like to export their products in the next 10 years.

Table 6.39 Intention of SMEs to export in the next 10 years

Zimbabwe			South Africa		
Response	Frequency	%	Response	Frequency	%
No	7	5	No	46	40
Yes	128	95	Yes	69	60
Total	135	100	Total	115	100

Question 40: Rate the impact of foreign competition on the domestic market of your business.

Results from SMEs in Zimbabwe show that one third (31%) of respondents said they were not sure, more than two thirds (68%) indicated that they were negatively affected by foreign competition, and one percent (1%) indicated that the impact of foreign competition on the

domestic market was positive. The results suggest that most SMEs in Zimbabwe are negatively affected by foreign competition.

The research findings of SMEs in South Africa show that fifteen percent (15%) of the respondents were not sure about the impact of foreign competition on the domestic market. More than three quarters (76%) indicated that foreign competition has a negative influence on the domestic market, while nine percent (9%) said that foreign competition had a positive impact on the domestic market.

Table 6.40 Impact of foreign competition on domestic market of SMEs

Zimbabwe			South Africa		
Impact	Frequency	%	Impact	Frequency	%
No impact	42	31	No impact	17	15
High impact	92	68	High impact	87	76
Low impact	1	1	Low impact	11	9
Total	135	100	Total	115	100

Impact of strategic partnerships made with MNCs on your profitability (Q41)

The study results for SMEs in Zimbabwe show that more than three quarters (78%) of the respondents have not made any form of strategic alliances with MNCs. Two percent (2%) of the respondents have made some strategic arrangement but these have borne nothing in terms of profits. Thirteen percent (13%) have made strategic arrangements with MNCs with a positive financial impact on SMEs, and seven percent (7%) of the respondents indicated that they have made strategic alliances with MNCs, but the venture had a negative effect on their profits.

Results from SMEs in South Africa show that more than two thirds (65%) of the respondents have not made any strategic alliances; fourteen percent (14%) have made strategic partnership agreements, with no financial gains. Fifteen percent (15%) of the respondents have reaped financial rewards from strategic partnership, while six percent (6%) of the

respondents have struck partnership deals, but have attained negative returns on their investment.

Table 6.41 Impact of strategic partnerships with MNCs on SMEs' profitability

Zimbabwe			South Africa		
Response	Frequency	%	Response	Frequency	%
No strategic partnerships done with MNCs	105	78	No strategic partnerships done with MNCs	75	65
Strategic partnerships done but with no financial impact	3	2	Strategic partnerships done but with no financial impact	16	14
Strategic partnerships done with positive financial impact	17	13	Strategic partnerships done with positive financial impact	17	15
Strategic partnerships done with negative financial impact	10	7	Strategic partnerships done with negative financial impact	7	6
Total	135	100	Total	115	100

Question 42: Rate the impact of ICT on your import and export initiatives.

The results from the SMEs in Zimbabwe show that seven percent (7%) of the respondents indicated that ICT has no impact on their supply chain activities; two percent (2%) indicated that ICT had a negative impact. More than three quarters (91%) stated that changes in ICT have a positive influence on their supply chain activities.

Results for SMEs in South Africa show that seventeen percent (17%) of the respondents noted that ICT does not affect their supply chain activities, and six percent (6%) said they

were negatively affected by changes in ICT. More than three quarters (78%) indicated that changes in ICT have positively affected their supply chain activities.

Table 6.42 Effects of ICT on SMEs supplies chain activities

Zimbabwe			South Africa		
Impact	Frequency	%	Impact	Frequency	%
No impact	10	7	No impact	19	17
Negative impact	2	2	Negative impact	7	6
Positive impact	123	91	Positive impact	89	78
Total	135	100	Total	115	100

6.7 Summary

The study found that most SMEs in Zimbabwe and South Africa are run by men. The study shows that respondents in both countries are highly educated. Sole ownership is the most dominant business ownership model in both Zimbabwe and South Africa. It was found that most SMES in Zimbabwe and South Africa felt that trade liberalisation policies negatively affected employment, wages and turnover of SMEs. Most of the SMEs in Zimbabwe and South Africa did not carry out any innovation owing to lack of expertise. Most SMEs in Zimbabwe and South Africa have not attracted FDI. Empowerment initiatives had impacted negatively on SMEs ability to attract FDI. Results from the study also show that most SMEs are not involved in exports and this is because they lack knowledge and resources to venture into the export market. The next chapter covers interpretation of the findings from the study.

CHAPTER SEVEN

FINDINGS AND RECOMMENDATIONS

7.1 Introduction

In chapter six, the study found that men are still dominant players in most SMEs in Zimbabwe and South Africa. It was also noted that respondents in both countries are highly educated. Most of the SMEs in Zimbabwe and South Africa neither carried out any innovation nor attracted FDI.

This chapter provides an analysis of the study findings and also provide some recommendations to assist SMEs in Zimbabwe and South Africa so that they become vibrant and self-sustaining with the ultimate objective of creating employment. The analysis will be done in line with the thematic areas (see table 7.1)

Table 7.1. Thematic areas analysed by the study

- Section One: Biographical details of the respondents [Questions 1-7]
- Section Two: Impact of trade liberalisation policy reforms on employment, wages, and turnover of SMEs [Questions 8-10]
- Section Three: Influence of trade liberalisation policy reforms on the ability of SMEs to carry out innovation [Questions 11-20]
- Section Four: Impact of trade liberalisation policy reforms on FDI and on Empowerment for SMEs [Questions 21-28]
- Section Five: Impact of trade liberalisation policy reforms on import and export initiatives of SMEs [29-42]
- Section Six: Comparing the findings of SMEs in Zimbabwe against those of SMEs in South Africa

7.2 Section One: Biographical details of the respondents

Gender of respondents (Q1)

Previous studies (Zindiye, 2008) had indicated that there are more women than men involved in running SMEs in Zimbabwe. Such a development would be lauded in developmental circles, as it is generally felt that women, along with children, tend to bear the brunt of poverty. In addition, the formal sector has historically been a preserve of men, economically disenfranchising most women and making them literally dependent on men (UNDP, 2008).

By assuming a role in the decision-making process, women are also able to influence human development. For example, children whose mothers have an equal voice in family decisions have been found to be more likely to receive proper nourishment, education, and health care services (UNDP,2008). Women create a beneficial environment where they improve the well-being of offspring so that the offspring can go on to survive and contribute to future economic growth. Thus, the ability to voice decisions allows gender equality to be crucial to economic progress and human development (UNDP, 2008).

The outcome of this study however, shows that more than half of the respondents in Zimbabwe are men. Likewise, results from South African SMEs showed that nearly three quarters of the entrepreneurs are men. The outcome in both countries suggests that males still dominate in the ownership and running of SMEs in Zimbabwe and South Africa.

Age range of respondents (Q2)

Economically, the 30 to 50-year age group is taken to be the most active (Mohr and Fourie, 2004). It was therefore expected that the highest number of respondents would emerge from this age range, and this, infact was confirmed by the results of the study which showed that more than half of the respondents in Zimbabwe's SMEs and more than three quarters of the respondents from South Africa's SMEs belong to the 30-50 age group.

Robertson (2013) notes that the venturing of young people in Zimbabwe to small business is probably more a lack of formal job opportunities than choice. The study reflects an insignificant number of respondents in the age group above 50 years (4% for Zimbabwe and 6% for South Africa).

Similarly, the highest unemployed number in South Africa belong to the 30-50 years age group (Mohr and Fourie,2004)

Highest level of education (Q3)

The study shows that most of the respondents in Zimbabwe and South Africa are highly educated and thus ideally be able to successfully run business enterprises. Previous studies done suggested that a positive relationship exists between level of education and success in running a business. According to Zindiye (2008), education increases the likelihood of identifying good business opportunities and the chance of success in running a business. This is supported by Thapa (2007) who finds that education has a positive effect on

entrepreneurial success. In addition, owner-managers' business experience is an important determinant for business success. Owner-managers with education and experience in managing business are more capable of finding ways to activate business, when compared to those who do not have the same experience and education.

Roberts (1969) finds that the founders of high technology companies hold at least one college degree and that half of these have at least a Master of Science degree. Following Robert's analogy (1969), it can be stated that there is a relationship between the level of education and ability and willingness to carry out innovation. Highly educated entrepreneurs (those with at least a Masters degree in Science) are likely to show interest and be successful with the innovation of products/services/processes, compared to those entrepreneurs who are less educated (Thapa,2007).

Section three of this chapter addresses issues related to the ability of SMEs in Zimbabwe and South Africa to design new products/services/processes. A clear observation from the section is that there are very low levels of innovation among entrepreneurs in Zimbabwe and South Africa. Lack of knowledge and skills was cited as the biggest stumbling block for the failure by SMEs to carry out innovation. The interpretation is that whilst the respondents were highly educated to run businesses, they lacked technical exposure to carry out meaningful innovation.

Legal status of business (Q4)

The results clearly indicate that the vast majority of SMEs in Zimbabwe and South Africa are owner-managed, as opposed to being managed by professional managers. Arguably, the fact that most manufacturing SMEs are owner managed brings in challenges and opportunities alike. On the positive side, this arrangement allows for quick and flexible decision-making, ensuring speedier implementation of policy (Rwigema, 1999). The downside, however, is that most of the owners do not have professional acumen and tend to become overwhelmed (Rwigema, 1999). They are responsible for finance, marketing, human resources, and strategy, among other functions. In addition, they personify the business. If the owner is absent or dies, the business does likewise. There is usually no second opinion to issues; the owner's voice carries the day. The hiring of a manager to run the day-to-day activities of the business is seen as the first step in allowing for professionalism in the conduct of business (Rwigema, 1999).

The study shows that manufacturing SMEs in both Zimbabwe and South Africa are still run along conservative as opposed to professional approach and this could explain why most of them tend to stagnate rather than grow. These results confirm the results obtained in previous similar studies. A study by Zindiye (2008) noted that 65 percent of the SMEs in Zimbabwe were sole proprietorships. Another study by Rwigema and Karungu (1999), in South Africa's Johannesburg area, also echoed the same sentiments, with results indicating 74 percent of SMEs as sole proprietorships. The fact that most of the SMEs are made up of sole ownership could be one of the factors why most SMEs failed to attract international investors as alluded on section four of the study.

Products manufactured (Q5)

Food processing is the most popular product manufactured by respondents, accounting for close to two fifths of Zimbabwe's results and nearly half of South Africa's responses. The results are consistent with those by previous researchers (Mather, 2005; Zindiye, 2008). Mather (2005) carried out research in the South African market and noted that food processing dominated the SME market. This was attributed to a combination of low start-up costs, as well as the deregulation of the food sector by South Africa's government in the 1990's. Zindiye's thesis in Zimbabwe (2008) also made a similar finding, with the food industry accounting for 30 percent of respondents.

The results show that the apart from food processing, clothing and footwear sector is still a preference for manufacturing SMEs in both Zimbabwe and South Africa. This is in spite of an influx of cheap materials from Asia and the Middle East (CZI, 2013). Interviews done during the study with key informants revealed that the continued popularity of clothing, as a product sold by SMEs, is due to the relatively low start-up capital required and also the fact that the business is quite flexible and inexpensive to run. Respondents did acknowledge the growing competition from outside the country but noted that they still had their niches and having been in the business for a significant period, it was difficult for them to switch to new, unfamiliar areas. The interviews also showed that the clothing and textile sector was probably the hardest hit sectors by outside competition, while the food sector was the least affected.

Title in the business (Q6)

The study shows that most of the SMEs in Zimbabwe and South Africa are owner-managed and this could be a major influence when it came to decision making. The results were consistent with those found in Cyprus by Bruce (1998), which shows that four fifth (80%) of small manufacturing companies are owner-managed operated. The results are also consistent with those by Zindiye (2008), which indicate that most of SMEs in Zimbabwe are owner-managed.

Timeframe since business opened (Q7)

According to Rwigema and Karungu (1999), most SMEs fail to survive beyond ten years. Thus results where most SMEs have existed for a longer time frame would be a good proxy of a higher survival rate for SMEs and vice-versa (Rwigema and Karungu, 1999).

The outcome of the study showed that more than half of the SMEs in Zimbabwe have been in business for less than 10 years. This should be seen as a significant observation, because it implies that most businesses were opened during the most difficult time in Zimbabwe's economy, where the average Gross Domestic Product fell by about 36 percent (World Bank, 2008). Interviews done as part of follow up question during questionnaire administration revealed that most SMEs were started by individuals who had been offloaded from the formal job market. Faced with the prospect of starvation, the retrenched workers had little option than to start their own enterprises as a way to make ends meet. Unfortunately, it meant that most could not secure meaningful funding and had to make do with pooling of own resources (Maramba and Tichagwa, 1998).

A worrying factor from Zimbabwe perspective, however, is that only two percent of respondents indicated they have been in business for more than 30 years. This could be indicative of a high failure rate of SMEs (Rwigema and Karungu, 1999).

For South Africa, the fact that most SMEs were started between 10 to 20 years ago is significant, because it shows that most SMEs started their business in the period after the country attained democracy. Channels that were previously unavailable in apartheid South Africa were opened after the attainment of democracy and there were also agencies prepared to assist, in terms of skills development and provision of monetary resources (National Credit Regulator, 2011).

7.3 Summary of findings on biographical details.

Men continue to dominate in the economic sphere in Zimbabwe and South Africa as confirmed by the current study. This is in spite of the fact that affirmative action policies for women have been introduced in both countries. Addressing the gender imbalance calls for a thorough review on the implementation of the policy especially with regards to economic empowerment. Most of the respondents running manufacturing SMEs in Zimbabwe and South Africa belong to the 31-50 age group. However, Zimbabwe has more respondents in this age group than South Africa. A suggestion for this scenario, is that of dwindling job opportunities, which forced many school leavers to become entrepreneurs (Zindiye, 2008). The study shows that less than two percent of respondents from Zimbabwe and nearly 10 percent of the South African respondents have educational levels below matric. These results confirm that respondents are highly educated, with a significant number of respondents from both countries holding postgraduate qualifications (8% in Zimbabwe and 6% in South Africa). However, despite these high qualifications, most SMEs could not carry out technological innovation, and this greatly impacted on their success.

Sole ownership is the most dominant business ownership model in both Zimbabwe and South Africa. Food processing remains the most attractive product for SMEs in Zimbabwe and South Africa, owing to low start-up costs. Most SMEs in Zimbabwe and South Africa are owner-managed, as opposed to being managed by professional managers. On a comparative scale, the biographical results find very little to separate Zimbabwe's SMEs from South Africa's SMEs.

7.4 Section Two. Impact of trade liberalisation policy reforms on employment, wages, and turnover of SMEs [Questions 8-11]

Impact of trade liberalisation policy on employment figures (Q8)

This question was important in light of the fact that the government of Zimbabwe has identified SMEs as a solution to the high unemployment statistics (80 percent according to Robertson, 2013).

The findings from the two countries show that trade liberalisation policy reforms **did not create employment** among SMEs in Zimbabwe and South Africa. This was principally because two of the assumption on trade liberalisation were not realised; there was low innovation, which in turn contributed to low exports, compared to imports in both countries. Imports are bad for the economy because they promote goods from other countries, at the

expense of those from the domestic market, leading to job losses, and this was precisely what happened (Mohr and Fourie, 2004). In the case of Zimbabwe, most SMEs had to depend on imports following the economic collapse that reached extreme levels around 2007 (USAID, 2008). On the other hand, the expectation that exports would swell was never realised. Massive imports and dwindling exports are the ideal recipe for unemployment (Mohr and Fourie, 2004).

In addition, trade liberalisation reforms opened up competition from outside the country. Cash-strapped SMEs could not compete with resource-rich Multi-National Corporations (Government of Zimbabwe, 2006). High inflation, high interest rates, and low disposable incomes all compounded the situation in Zimbabwe (Government of Zimbabwe, 2006). SMEs therefore adopted survival strategies and retrenchments were the most viable option. Retrenchments assisted SMEs to reduce business running costs and also to match the manpower available to the reduced production level (World Bank, 2008).

South Africa's results also mirror the results of trade liberalisation at macro levels, where the policies led to strong economic growth but without a corresponding increase in job creation (Tsikata, 1999). On a comparative scale, the results show that trade liberalisation policy reforms led to more retrenchments in Zimbabwe than is the case when compared to South Africa's SMEs, and this is attributed to the economic challenges of the former (Maramba and Tichagwa, 1998).

Impact of trade liberalisation policy on turnover of SMEs (Q9)

It was found that trade liberalisation reforms had a **negative impact** on the turnover of SMEs in both Zimbabwe and South Africa. It showed that more than three quarters of the respondents from Zimbabwe's SMEs indicated that trade liberalisation negatively impacted on their turnover. From South Africa's perspective, the study revealed that more than half of the respondents said trade liberalisation reforms led to a reduction on turnover.

On the comments section of the questionnaire, many SMEs in Zimbabwe complained that the deregulation of controls on inputs negatively affected their turnover, as prices increased threefold. When they tried to pass the increases to the market, the latter resisted and switched to cheap imports, which flooded the market, thanks to the removal of import barriers.

Consequently, the turnover for most SMEs, rather than improving, actually shrunk in real terms.

One of the dimensions of trade liberalisation was the devaluation of the currency (World Bank, 2008). Advocates of trade liberalisation (Lipsey, 2002) argued that devaluation would lead to export competitiveness, increasing exports and bringing benefits to the country. In line with this the Zimbabwean government devaluing the local currency by 40 percent in 1991 (World Bank, 2008). During interviews with key informants, it was stressed that the devaluation of the currency proved fatal to most SMEs, because it meant that imports became expensive, at a time when there were no supplies from the domestic market. SMEs were therefore forced to spend more money to get imports to the country. Higher import prices led to cost-push inflation, as SMEs sought to recoup their costs by increasing the prices of their commodities. Higher prices, in turn, reduced the demand for goods, leading to reduced turnover and in some cases, losses for SMEs. On the other hand, companies from outside the country literally dumped their products on the local market, further suffocating the SMEs (Tichagwa and Maramba ,1998). Consequently, the turnover for most SMEs, rather than improving, actually shrunk in real terms.

Impact of trade liberalisation policy on the wage bill of SMEs (Q10)

The study revealed that trade liberalisation had a **negative impact** on the wage bill of SMEs in Zimbabwe and South Africa. Literature on trade unions and international trade indicate that increasing imports and the removal of trade barriers have a negative impact on union wages (MacPherson and Stewart, 1990; Freeman and Katz, 1991; Driffill and van der Poeg, 1995; Gaston and Tefler, 1995). Greater imports, however, increase product demand elasticity, reduce profits, and lead to wage concessions by unions (Mohr and Fourie, 2004).

On the other hand, an industry facing increasing exports may be encouraged to invest in equipment and new plants (Grossman,1984). In these circumstances, fearing that the industry can adopt more capital-intensive technologies, unions act strategically by moderating their wage demands. Therefore, there is a positive relationship between imports and wages, and a negative relationship between exports and wages (Grossman, 1984). It should be noted that increased wages are positive for unions but negative for business, as it implies increased costs. Reduced wages, on the other hand, are good for business but bad from a trade union perspective (Mohr and Fourie, 2004).

In depth interviews with key informants revealed that there was an increase in the wage costs for most SMEs in Zimbabwe due to trade liberalisation. However, the increases had little to do with imports or exports, they were instead triggered by high inflation, which characterised the greater part of the reform implementation phase in Zimbabwe (World Bank, 2008). While most SMEs welcomed the removal of minimum wages, the inflation that set in after the introduction of trade liberalisation eroded the real wages. At its peak in 2007, inflation in Zimbabwe topped 10 million percent, meaning that the currency was virtually worthless (International Monetary Fund, 2008).

In South Africa, nearly half of the respondents said the reforms had no effect on the wage bill and one third said the reforms negatively influenced the wage bill. The results for South Africa are probably indicative of the strong union power, which ensures that workers do not lose out when it comes to wages, thus increasing costs for SMEs (Rwigema and Karungu, 1999).

7.5 Summary of findings on the impact of trade liberalisation policy on employment, wages, and turnover of manufacturing SMEs

It was found that most SMES in Zimbabwe and South Africa felt that trade liberalisation policies negatively affected employment creation in manufacturing SMEs in the two countries. Likewise, trade liberalisation policy reforms negatively influenced the turnover of SMEs in both Zimbabwe and South Africa. Trade liberalisation policy reforms negatively affected the wage bill of most SMEs in Zimbabwe. In the in depth interviews done during the study, most respondents commented that while the removal of minimum wage requirements was a welcome relief, real wages were eroded by inflation that set in after the introduction of trade liberalisation. The picture with regard to SME in South Africa was however different. Most SMEs in South Africa indicated that trade liberalisation policy reforms had no impact on their wage bill.

7.6 Section Three. Influence of trade liberalisation policy reforms on the ability of SMEs to carry out innovation [Questions 11-20]

Innovation is the introduction of new ideas, goods, services, and practices, which are intended to be useful (Glass, 2001). An essential element for innovation is its application in a commercially successful way. There are broadly two types of innovation, namely product and process innovation (Glass, 2001). Product innovation refers to work done to design or improve a product. Process innovations aim to make the manufacturing process more

efficient through automation, simplification, better process control, and lower energy consumption (Glass, 2001).

Whether the entity has carried out any innovation (Q11)

Trade liberalisation allows enterprises in the host country to attain and carry out innovation of products and services (Lipsey, 2002). This technological skills transfer happens at two levels; through strategic business linkages between mostly MNCs and enterprises in host countries, and through natural attrition (Lipsey, 2002). Innovation of new products/service of processes becomes a competitive advantage, through which enterprises in the host countries are able to assert themselves in domestic and international markets (Vernon, 1993).

The hypothesis is therefore that most SMEs in Zimbabwe and South Africa would indicate having carried out innovation as a result of trade liberalisation policy reforms, and that through such innovation; they have managed to stand their ground against competitive pressures.

The results for SMEs in Zimbabwe however, indicate that more than three quarters (86%) of the respondents did not carry out any form of innovation. Similar results were noted from South Africa's SMEs. On the comments section of the questionnaires, most respondents from both countries pointed to limited knowledge and expertise, as well as a lack of resources being the main contributing factors of their failure to innovate. Respondents claimed that most MNCs are hostile to SMEs, and view them with little respect, as well as jealously guarding their intellectual property rights.

The results indicated by question 11 are confirmed by the findings of question 44, where most SMEs noted they had not formed strategic partnership or sub-contracting arrangements with big enterprises. From Zimbabwe perspective, the high number of SMEs who did not innovate, can probably be explained by the fact that most of the MNCs left the country at the height of the economic meltdown that is 2000-2009 (IMF,2008), leaving SMEs with nowhere to tap from (Zindiye,2008). The results from both Zimbabwe and South Africa are therefore inconsistent with those obtained in Italy and the European Union (Bugamelli, Fabiani, and Sette, 2008). Based on the above contrasting outcomes, this study concludes that the influence of trade liberalisation on the ability of SMEs to innovate differs between a

developing and a developed economy, with the effect being negative on the former and positive on the latter.

Nature of innovation you carried out (for those that carried out innovation) (Q12)

The type of innovation carried out is critical in determining whether the innovation carried out was meant to improve efficiency or identify new products and new markets. Generally, process innovation is associated with shedding of employment as owners discover leaner ways of doing production (Glass 2001).

Results for Zimbabwe's SMEs show that most of the respondents that carried out innovation did product, rather than process, innovation. Similarly, the results from South Africa's perspective showed that most of the SMEs carried out product innovation. On the comments section of the questionnaire, some respondents in Zimbabwe noted that they were driven to carry out product innovation, as a means to escape from the twin challenges of external competition, and internal macro-economic instability.

Factors that led SMEs to carry out innovation (Q13)

According to Glass (2001), by reducing the realized gains from exchange, tariffs reduce the reward to innovation. A tariff induces inefficiency and so kills off the spirit to innovate as a competitive tool. In other words, elimination of tariffs awakens slackening companies to innovate or they would find themselves liquidated (Glass, 2001). Changes in tariffs or transport costs alter the rate of innovation, relative wages, and aggregate spending through the incentive to create quality improvements of existing products. A small increase in tariffs reduces profits and the amount of resources available for such departments as research and development (Glass, 2001). Elimination of tariffs thus benefits innovation in that resources for the research and development department would increase. Accordingly, one would expect the opening of the international market as the major push factor to innovate (Glass, 2001).

Results obtained, however, were inconsistent with the theory, at least from a Zimbabwean perspective. The results show that nearly three quarters of the respondents from Zimbabwe cited local market as the push factor for innovation. It is important to note that during the 2000-2009 period Zimbabwe's government introduced a raft of measures which were not favourable for foreign companies to trade in Zimbabwe and this could be a factor that contributed to less foreign competition (IMF, 2008).

Results from South African respondents seem to agree with Glass's theory. Nearly half of the respondents from South Africa indicated that they were pushed into innovation by competition from the international market. Quality improvement was the least cited factor in both Zimbabwe and South Africa (0% in Zimbabwe and 12% in South Africa).

Stakeholders who assisted SMEs in carrying out innovation (Q14)

Proponents of trade and economic liberalisation assert that such a policy increases innovations and technological progression in the host country (Belderbos, 2011). This development is generated in two ways. Firstly, trade liberalisation makes it easier for Multi-National Corporations (MNCs) to establish or trade goods in or from the host country (Belderbos, 2011). These MNCs are assumed to have skilled workers and resources to explore new inventions and innovations. The firms in the host country then benefit by a natural process of attrition. Alternatively, trade liberalisation policies open the door for firms in the host country to enter into strategic partnerships with innovative-minded and technologically advanced foreign entities (Lipsey, 2002). Firms in the host countries then benefit in both innovation skills and technology transfer (Lipsey, 2002).

Results from the respondents for SMEs in Zimbabwe showed that most of the SMEs that carried out innovation did so **without** any direct support from other agencies. Similarly, SMEs in South Africa did not receive any meaningful support when innovating. More than three quarters of the respondents indicated that they innovated without any external support.

Most SMEs in both Zimbabwe and South Africa claimed that most MNCs were unwilling to assist them, as they viewed (SMEs) them with disrespect. As a result, the entrepreneurs had to make do with technological knowledge attained when they were still employed in the mainstream economy. This suggests that innovations were carried out by SMEs run/owned by individuals who had been retrenched, as opposed to those started running SMEs straight after school. This finding contradicts finding by Robert (1969) where higher levels of education were associated with ability to innovate. Thus, while successfully running a business requires a minimum level of education, the study reveals that innovating requires a minimum amount of **experience**.

Impact of innovation on SMEs business competitiveness (Q15)

Empirical studies show that innovation, particularly product innovation is an important driver for competitiveness (Belderbos, 2011). It is claimed that product innovation gives a firm a competitive advantage especially when it comes to exports (Belderbos, 2011).

The study findings are consistent with such a view. More than three quarters of the SMEs that carried out innovation in Zimbabwe noted that such innovation had a high level of impact on business competitiveness. Similarly, more than half of the South African SMEs that carried out innovation said such innovation had a high impact on business competitiveness. These results lend support to the need for innovation if the SMEs are to compete effectively in a globalised economy. The overall result suggests that innovation does play a **critical role** in improving the **competitiveness** of SMEs.

Whether innovation in SMEs was influenced by trade liberalisation policy (Q16)

According to Ruiz (2011), trade liberalisation promotes innovation. It is claimed that opening up of the economy to external pressures will push companies to be more efficient, reduce costs, and improve product quality. All these pressures will ultimately lead to both process and product innovation.

Results from the study were consistent with those of Ruiz, at least from a Zimbabwean perspective. More than half of the SMEs from Zimbabwe indicated that they were driven to innovate by trade liberalisation. Nearly a third of SMEs that carried out innovation said they were not sure whether they could attribute their innovation initiative to trade liberalisation. Most of the SMEs who were not sure on the impact of trade liberalisation to their innovation attributed their dilemma to the fact that trade liberalisation was done simultaneously when the economy was experiencing challenges. They could therefore not separate between trade liberalisation and economic decline.

Results for SMEs in South Africa were, however, different. About two fifth of the SMEs were not sure whether to attribute their innovation to trade liberalisation reforms. Another two fifths however, attributed innovation to trade liberalisation. The remainder of the SMEs felt that their innovation could be attributed to other factors, apart from trade liberalisation policy reforms.

Impact of innovation on employment in SMEs (Q17)

The results of the study suggest that innovation had **little impact** on employment creation in both countries. The results are consistent with those from existing literature. A study by Fioravante and Maldonado (2008) on the impact of technological innovation on employment in Brazil showed that the impact was negative. The import of capital goods brought changes to the firm's labour demand function in relation to the kind of activity performed by the workers. As companies grappled with finding their spaces in a congested competitive field, they sought for cuts in costs by substituting human labour with machines (Fioravante and Maldonado, 2008).

From a business point of view, those measures were good because they increased efficiency and reduced costs, allowing the business to compete effectively. However, the substitution of human labour with machines led to loss of employment (Fioravante and Maldonado, 2008). Therefore, while the productivity gains are considerable; on the other hand, innovation improves the efficiency of the inputs, thus, diminishing the number of workers per product. Bahia (2006) empirically studied the Brazilian industrial sector and found that an augment of two percent in the firms' sales, nowadays creates 35.8 percent less jobs, than this same two percent increase 10 years ago, due to innovation. The picture portrayed is that innovation leads to loss of employment as production lines become leaner and mechanized (Bahia, 2006).

Perhaps the puzzle with the outcome of the current study was that given that most SMEs carried out product and not process innovation as reflected on section three of questionnaire analysis, the expectation was to see an outcome where innovation led to the creation of more jobs. Yet the opposite happened, and one can only conclude that perhaps the magnitude of the innovation is critical. The study thus reveals that **low-level product innovation is unlikely to have an effect on employment creation**. Judging from the outcome, most of the SMEs who carried out product innovation carried out low-level product innovation, which did not influence job creation.

It is also noteworthy to point out that there were no significant differences in the outcome for Zimbabwe and South Africa's SMEs. Such a result was quite unexpected. Most SMEs in both countries noted that innovation had **no impact** on the number of workers employed. This leads to the conclusion that entrepreneurs in both countries carried out low-level innovation.

A key point alluded to by this outcome is that if innovation is going to be an asset in employment creation then it must not only be product-oriented, but must also be **significant in magnitude**.

Possible reasons why some SMEs did not carry out any innovation [for those SMEs that did not carry out innovation] (Q18)

Given the importance attached to innovation, it becomes critical to identify why most of the SMEs failed to carry out any form of innovation. Most respondents who did not carry out innovation in Zimbabwe's SMEs cited lack of expertise as a deterrent factor in their failure to do any innovation. In contrast, results from South Africa's SMEs show that more than half (53%) cited lack of resources as the deterrent.

The results suggest that SMEs in Zimbabwe and South Africa are in dire need of expertise and financial resources to see a meaningful level of impact on innovation, without which they will find it difficult to compete in a globalised economy.

Belief on ability to can carry out innovation in the future (Q19)

The question sought to determine whether SMEs in Zimbabwe and South Africa believe they have the need and ability to innovate in the future. Perceptions are important in making business decisions (Rwigema and Karungu, 1999). In essence, the question aimed to assess whether SMEs in Zimbabwe and South Africa believe that their future survival is crucially determined by their innovation abilities.

One third of the respondents from SMEs in Zimbabwe said they believed they would be able to innovate in the future while nearly half of the respondents said they were not sure whether they would be able to carry out innovation in the future. Those who responded in the negative mentioned that while they saw the necessity to innovate; their technological and monetary resource abilities did not allow them to do that. In South Africa, more than half of the respondents said they would be able to innovate in the future. Perhaps the difference in the responses from SMEs in Zimbabwe and those in South Africa is as much a reflection of optimism on the future state of the economy (CZI, 2013). In Zimbabwe, most business people, SMEs included, have a **pessimistic** view on the future state of the economy. They cite, among other issues, the fact that there has been deindustrialisation from 2011 to the

present, as reflected by the fact that capacity utilization in the manufacturing sector fell from 57 percent in 2011 to 44 percent in 2012 and 39 percent in 2013 (CZI, 2013).

Perceptions by SMEs on how they will be affected by technological innovation in the next 10 years (Q20)

More than half of the respondents from SMEs in Zimbabwe and in South Africa believe that innovation will positively impact on their business in the future. The results show that while there is a sense of optimism about the ability of innovation to pull businesses of SMEs, in both Zimbabwe and South Africa, the fact is that more South African SMEs are optimistic, compared to their Zimbabwean counterparts (84% from South Africa as opposed to 57% from Zimbabwe).

7.7 Summary of findings on the level of impact of trade liberalisation policy reforms on the ability of manufacturing SMEs to carry out innovation

The results indicate that more than three quarters of the respondents in Zimbabwe and South Africa had not implemented any form of innovation. Respondents from both countries pointed to limited knowledge and expertise, as well as a lack of resources as the major factors behind their failure to innovate. Regarding the nature of innovation, most of the SMEs that implemented innovation, indicated that they did product rather than process innovation. This type of innovation is associated with increased employment prospects. From a Zimbabwean SMEs perspective, the local market was noted as the greatest push to innovate. South Africa's SMEs, in contrast, were pushed by increased international competition. More than three quarters of the respondents from SMEs in Zimbabwe, and more than half of the respondents from SMEs in South Africa, indicated that being innovative had a **high level** of impact on their competitiveness.

Most SMEs in Zimbabwe were driven to innovate by trade liberalisation, whereas in South Africa, most SMEs were not sure on whether to attribute their innovation initiatives to trade liberalisation. More than half of respondents from SMEs in Zimbabwe and more than three quarters of respondents from South Africa's SMEs indicated that technological innovation did not have any influence on their employment statistics. A lack of expertise and poor financial resources are the dominant factors affecting the ability of SMEs in Zimbabwe and South Africa to innovate. In Zimbabwe, more than half of the respondents cited lack of expertise as a factor for not being innovative, while poor financial resources was cited by

more than one third of the respondents. In South Africa, however, the dominant factor behind failure to innovate is poor financial resources, which accounted for more than half of the respondents. Most SMEs in Zimbabwe and South Africa believe that innovation will positively affect their business in the next 10 years.

7.8 Section Four: Impact of trade liberalisation policy reforms on FDI and on Empowerment for SMEs [Questions 21-28]

Whether there has been a change in ownership (involving foreigners) of business in the last 10 years (Q21)

One of the fundamental effects of trade liberalisation policy reforms is the attraction of capital, particularly foreign capital (Lipsey, 2002). Many believe that successful implementation of trade liberalisation reforms by the host government, is a positive signal to foreign investors as it implies less investment risk (Kose, 2006). Thus, the progress of trade liberalisation reforms can be an impetus to strong foreign investment flows.

Available literature suggests that there were significant foreign direct inflows, especially in South Africa (Tsikata, 2001). In Zimbabwe, foreign inflows were very low in the period from 2000-2008, due to policy differences between the authorities in Zimbabwe and much of the Western nations (Robertson, 2013). There were, however, inflows, albeit much lower than South Africa. It was therefore in the interest of the study to determine whether SMEs in both countries received a slice of these inflows and the magnitude thereof.

Results from the study show that more than three quarters of the respondents for SMEs in Zimbabwe and South Africa said there has not been a change in ownership involving foreigners.

If there have not been changes in the ownership (foreign) structure of your business in the past 10 years, rank the possible reason (Q22).

The study showed that the majority of SMEs in Zimbabwe (63%) cited failure to secure foreign partners, as the main contributing factor in not involving other foreign nationals in running their business. The study shows that the majority of the SMEs in Zimbabwe are in dire need of capital injection and one way of obtaining it, is through partnering with foreigners (CZI, 2013). Unfortunately, the state of the economy in the period 2000-2010

scared off any potential investors (CZI, 2013). In the period under review, Zimbabwe experienced a 50 percent decline in economic growth, 60 percent closure in factories, an 80 percent formal unemployment rate and a near 100 percent decline in foreign currency reserves (Zindiye, 2008).

Similarly, most South African SMEs failed to secure international partners. However, unlike Zimbabwe's SMEs, distrust for foreign investors was also a factor in the case of South Africa's SMEs accounting for one third of the responses. Collectively results demonstrate that failure to attract international investors is a significant hurdle perhaps affecting SMEs in developing countries, although the magnitude differs from country to country. Most SMEs are regarded as risky because of a lack of proper structures and professionalism (Rwigema and Karungu, 1999). In the case of Zimbabwe, the situation was compounded by the unfavourable investment climate (World Bank, 2008).

Possible reasons for incorporating foreigners into business (for the SMEs that incorporated foreign partners) (Q23)

For Zimbabwe's SMEs that were successful in courting international investors, the overwhelming driving factor was the need to secure funding. At the height of the economic malaise, funding for most business ventures was almost non-existent in Zimbabwe (CZI, 2013). Banks charged punitive interest rates of up to 40 percent per annum. The hyper-inflationary environment made the Zimbabwe's dollar useless and therefore the safest haven for SMEs was foreign currency, which was not readily available on official channels (CZI, 2013). The only way available to secure foreign currency, was to partner with risk averse foreign nationals. The study reveals that the need for management expertise was not a factor in the incorporation of foreign investors in Zimbabwe. Similarly, funding was the main reason for South Africa SMEs to invite foreign investors.

Impact of empowerment initiatives on SMEs ability to attract FDI (Q24)

Zimbabwe and South Africa were unique in that trade liberalisation policy reforms were carried out at the same time as empowerment initiatives. The study sought to determine the impact of the empowerment initiatives on SMEs ability to attract foreign investors

Results from SMEs in Zimbabwe and South Africa show that the majority of the respondents noted that empowerment had **negatively** impacted on their efforts to attract Foreign Direct

Investment with Zimbabwe's SMEs worse off compared to South Africa's SMEs. SMEs in Zimbabwe revealed that potential investors were scared away by the provision requiring companies to cede 51 percent ownership to the indigenous people. These results really confirm those from question 21-22. Most SMEs did not have foreign investment (Q 21), because they failed to secure funding (Q 22), due to the fact that potential investors were frustrated by the empowerment policy (Q24).

Just as with SMEs in Zimbabwe, most South African SMEs were negatively affected by the empowerment policy, although the magnitude of the impact was steep in Zimbabwe (70% compared to 56% for South Africa's SMEs). Follow up questions during questionnaire administration on South Africa's SMEs showed that most respondents pointed to the negative publicity of empowerment, and not to the policy itself as a deterrent.

Impact of empowerment on profitability (Q25)

Nearly two thirds of the respondents for SMEs in Zimbabwe noted that empowerment had negatively impacted on their profitability. Given that SMEs were expected to be the direct beneficiaries of the empowerment policy (Government of Zimbabwe, 1999), the results which show that most SMEs (62%) were negatively affected by the empowerment policy would be a surprise. On the comments section of the questionnaires, most of the respondents alleged that there was **corruption in the parcelling out of empowerment deals** and that those who were not linked politically, were sidelined. The respondents alleged that far from improving their fortunes, empowerment had left them poorer, with some of their external business associates cancelling contracts, citing the empowerment policy as the reason.

In South Africa, more than two fifth of the respondents said that empowerment had no impact on the profitability of their businesses. Forty one percent said that empowerment policy negatively affected the profitability of their businesses.

A comparison of the results on Zimbabwe and South Africa's SMEs shows that more SMEs in Zimbabwe were negatively affected by the empowerment policy than their South African counterparts (62% compared to South Africa's 41%). This owes much to the fact that the empowerment policies in Zimbabwe are regarded as being too steep, compared to those of South Africa (Block, 2013).

Potential impact of empowerment on profitability in the next ten years (Q26)

The rationale for the question was to assess whether SMEs in Zimbabwe and South Africa have a positive outlook on the impact of empowerment policies on the profitability of their business. The study showed that most respondents noted that empowerment initiatives would negatively impact on the success of their businesses going forward. In contrast, most South African SMEs believe that empowerment initiatives will have no impact on the profitability of their business in the future.

Results from South Africa's SMEs indicate that most SMEs interviewed are **indifferent** regarding the effect of empowerment. The results indicate that more Zimbabwe's SMEs have a negative outlook regarding the effect of empowerment on profitability in the next 10 years, compared to South Africa's SMEs (60% for Zimbabwe's SMEs against 37% for South Africa's SMEs).

The Affirmative Action Group (AAG), one of the empowerment lobby groups in Zimbabwe, has alleged that empowerment initiatives implemented thus far, have not benefited the average citizen but has instead concentrated on those in the top echelons of the government (The Financial Gazette, 2013). Empowerment, according to the AAG, has meant replacing a few whites with a few privileged blacks, while the majority continues to live in abject poverty (The Financial Gazette, 2013).

Impact of empowerment on the attraction of FDI at SMEs in the next ten years (Q27)

Most SMEs in Zimbabwe believe that empowerment initiatives will negatively impact on their efforts to secure foreign funding in the future. In contrast, most South African SMEs stated that empowerment initiatives will have no effect on the attraction of foreign capital in the future. Results show that more than half of the respondents (54%) indicated that empowerment policies would have no influence on efforts to attract FDI in the next 10 years.

Results from Zimbabwean SMEs are consistent with most of the literature on the subject in Zimbabwe. A report from the Herald newspaper (2013), Zimbabwe's biggest newspaper group, showed that the Zimbabwe Investment Authority (ZIA) had approved investment proposals worth US\$930 million in 2012, a massive fall from US\$6,6 billion approved in 2011. According to the report, ZIA attributed the plunge in investments to negative perception surrounding the empowerment policies in Zimbabwe. Foreign Direct Investment

in Zimbabwe plummeted from an all-time high of 7,3 percent of GDP in 1997 to 2,3 percent of GDP in 2005. The fall was largely attributed to Zimbabwe's strained relations with the international community, owing to the empowerment initiative (Robertson, 2013).

Effect of empowerment policy on employment creation at SMEs (Q28)

In an environment characterised by policy contradictions, as is the case in Zimbabwe and South Africa, it becomes pertinent to know which of these policies is generating employment. This is because employment creation remains a cornerstone reason for the governments of Zimbabwe and South Africa to pay so much attention to SMEs. Both countries are saddled with huge unemployment figures (CZI, 2013; National Credit Regulator, 2011).

Most respondents in Zimbabwe and South Africa's SMEs feel that empowerment will negatively impact on employment creation. Such results are quite worrying given the fact that both countries have huge unemployment burdens. The responses are inconsistent with literature on Malaysian empowerment, which indicate that empowerment in Malaysia led to an increase in employment figures from 30.8 percent to 48 percent by 1987 (Chimhandamba, 2007).

7.9 Summary of findings on the effect of trade liberalisation policy reforms on FDI and empowerment.

The study showed that most SMEs in both countries could not secure foreign partners. Most SMEs who invited foreign ownership in Zimbabwe and South Africa, were motivated by the need to secure funding. Most SMEs in both countries feel that the empowerment policy had negatively affected their ability to attract foreign investment. Potential investors in Zimbabwe were put off by the provision which required companies to cede 51 percent ownership to the indigenous people.

In South Africa comments by most of the respondents pointed to the negative publicity of empowerment and not so much the policy itself, as a deterrent. Results from South Africa and Zimbabwe's SMEs show that most SMEs indicated that empowerment has a negative impact on the profitability of their businesses, although the magnitude of negativity was higher in Zimbabwe than that of South Africa. Most SMEs in Zimbabwe have pessimistic views on the future impact of empowerment initiatives on the profitability of their businesses. In contrast,

results from South African SMEs show that most SMEs state that empowerment initiatives will have no impact on the profitability of their businesses.

Most SMEs in Zimbabwe stated that empowerment policies have a negative impact on employment creation. In South Africa, the percentage of those who showed that empowerment will negatively affect employment generation stands at 43 percent, much less than Zimbabwe's 73 percent. However, the overall picture emerging is that empowerment, in its current form, will greatly hamper employment creation initiatives in Zimbabwe

7.10 Section Five. Impact of trade liberalisation policy reforms on import and export initiatives of SMEs

Whether SMES import some raw materials/products (Q29)

Ideally, removal of trade barriers is associated with increased imports, as enterprises take advantage of better prices, or better quality, or both (Lipsey,2002). Literature reviewed in chapter four confirms increased imports and exports in Zimbabwe and South Africa, after the adoption of trade liberalisation reforms. The study sought to ascertain how much of those imports and exports belonged to SMEs.

Results from SMEs in Zimbabwe show that close to half of the respondents import all or some of their goods/raw materials, with the remainder relying on the domestic market. However, the conclusion is that the desire by SMEs in Zimbabwe to import may not have much to do with exploiting the advantages attributed to free trade. Rather, the desire stems from product unavailability in the local market (The Financial Gazette, 2013).

A report released by the Confederation of Zimbabwe Industries (CZI) in October 2013, painted a grim picture on the state of the manufacturing sector. The report stated that capacity utilisation in the manufacturing sector had plunged from 57 percent in 2011 to 44 percent in 2012 and most recently, to 39 percent in 2013 (CZI, 2013).

The CZI report was confirmed by a daily newspaper snap survey, which observed that most companies in Bulawayo and Mutare (Zimbabwe's second and third largest cities respectively) were operating below 20 percent capacity (Newsday, 2013). Listed grocery retailer, OK Zimbabwe Limited, is on record for having alluded that it imports 65 percent of all its retail

products, mostly from South Africa, due to product unavailability on the domestic market (The Herald, 2013).

Results from SMEs in South Africa show that a very small number of respondents said they import goods/raw material. These results suggest that SMEs have been slow to partake in international trade and thus harness the perceived benefits associated with open international trade, namely economies of scale and knowledge transfer.

The results regarding the number of SMEs involved in imports is consistent with those obtained by Mpofu (1998), which showed that 64 percent of the respondents from SMEs in Zimbabwe did not import any of their raw material requirements or finished products. Mpofu (1998) argued then that SMEs, by virtue of their size, found the business of import and export very complicated, which is why they opted to deal with local dealers, albeit at a higher cost. Given the state of the manufacturing sector highlighted above, the conclusion, is that the figure for SMEs not importing may be superficial, as some may be dependent on imports by third parties, even though it would be at higher costs (CZI, 2013).

Source of imports for SMES (for those importing) (Q30)

The objective of the question was to establish the extent to which SMEs in Zimbabwe and South Africa contribute to bilateral trade between the two countries. In addition, the question sought to determine how SMEs in the two countries have aligned their business relations, in light of the emergence of China and India on the global business map. The question also sought to determine the extent to which the Look East policy adopted by authorities in Zimbabwe from 2000 has been received by SMEs in Zimbabwe. The Look East policy aimed to forge strong ties with Asian markets, in the wake of frosty relations between Zimbabwe and western nations.

Results from SMEs in Zimbabwe show that than half of the respondents import their raw materials and products from Africa and more than one third import from Asia. Follow up probing during questionnaire administration showed that within Africa, the great majority of imports actually come from South Africa, while China and United Arab Emirates were cited as the dominant countries in the Asian region. These results are inconsistent with those of CZI (2013), which noted that Zambia had overtaken South Africa in becoming the number

one source of imports into Zimbabwe and destination on exports. The results also suggest that SMEs in Zimbabwe have adopted the Look East policy in significant measures.

Results from SMEs in South Africa show that most of the SMEs involved in imports are importing from Asia and the remained from Africa. Such results are also inconsistent with data available from the South African Revenue Services (2007), which indicated that most of South Africa's imports were from the European Union and the United States of America. As with Zimbabwe, the results from South African SMEs, suggest the growing importance of China as a trading partner. It is worth mentioning that effective 2012, China overtook the European Union as South Africa's major trading partner (Republic of South Africa, 2013).

The study confirms that there is very little business between SMEs in Zimbabwe and those of South Africa. Zimbabwe's SMEs rely on imports from South Africa but on the other hand, not many South Africa's SMEs import goods from Zimbabwe. While this is hardly surprising, it reflects the wider problem of trade imbalance that has characterised the economies of the two neighbours, since Zimbabwe started experiencing economic problems. Trade between South Africa and Zimbabwe increased to \$5.9 billion in 2012, from \$4.6 billion in 2011; with a breakdown of the figures indicating that Zimbabwe imported goods worth \$3.2 billion from South Africa, while exports accounted for \$2.7 billion in 2012 (CZI,2013).

Whether SMEs export or rely solely on the domestic market (Q31)

The objective of the question was to validate one of the claims made in favour of trade liberalisation, namely that opening an economy up to international competition encourages these firms to increase their exports (Lipsey 2002). Increased exports are a desired goal for every government. Spending on exports by foreigners constitutes an injection into the circular flow of income and spending in the domestic economy (Mohr and Fourie, 2004). Spending on imports on the other hand, constitutes a leakage or withdrawal from the circular flow of income and spending in the country. In short, exports increases liquidity in the domestic economy, stimulating investments, and creating jobs (Mohr & Fourie, 2004).

Results from SMEs in Zimbabwe and South Africa show that most SMEs in both countries are not involved in exports. These results are consistent with available literature. A manufacturing survey commissioned by the Confederation of Zimbabwe Industries noted that

manufacturing export sales constituted about 15 percent of turnover (The Financial Gazette, 2012).

A study by Mpofu (1998) showed that 36 percent of the SMEs in Zimbabwe were involved in exports in 1998. Valodia and Velia (2004) investigated the relationship between international trade liberalisation at macro level and its micro- or firm-level adjustment effects in the South African manufacturing industry. Their findings suggest that there is a strong relationship between the average firm size and the volume of cross-border trade. More specifically, it was found that more than half of the firms not engaged in international trade are SMEs. At the opposite extreme, almost half of the firms involved in both importing and exporting are large enterprises, employing more than 200 workers. It appears that large enterprises have been more successful than their smaller counterparts, at integrating their manufacturing activities into the global chain of production (Tambunan, 2008).

The results are also in tune with the findings of Rodriguez and Rodrik (1999), who argue that export performance by an entity, is directly related to the maturity of the industries in which that entity operates. Mature industries exhort more power and ability to export than young companies. SMEs, being young and lacking experience, find the business of exporting too daunting and thus rely mostly on the domestic markets.

A comparison on imports and exports by SMEs in Zimbabwe suggests more SMEs are importing than those that are exporting, and this is problematic for the economy which is facing serious liquidity challenges. The results from the two countries show that there are more SMEs in Zimbabwe involved in exports, compared to those in South Africa (31% against South Africa's 24%). One can conclude that most of Zimbabwe's SMEs were pushed to exports to obtain foreign currency and because of dwindling local demand for goods and services, brought about by economic collapse (CZI, 2013). As shown in section two of the questionnaire, a combination of low exports, coupled with high imports and low levels of innovation, are part of the reason why Zimbabwe is today saddled with a huge unemployment problem (CZI, 2013).

Factors that influenced SMEs to export products (for those that export their products) (Q32)

Economic theory suggests that there are benefits to be had from exports, including that of affording an enterprise to obtain foreign currency (Mohr and Fourie, 2004). This is particularly important in a situation where the enterprise also does imports, as it means that it can use part of the funds obtained from exports, to pay for the imports. An additional advantage attributed to exports; include that of tapping technology (UNCTAD, 2001). The study sought to find out whether these factors were important in influencing SMEs in Zimbabwe and South Africa to export.

Results from the study showed that more than half of respondents from SMEs in Zimbabwe were pushed into exports by the need to remain competitive while about two fifth said they wanted to access foreign currency. In contrast, most of the SMEs from South Africa that went into exports did so due to increased competition from the domestic market. While SMEs in both countries are experiencing competitive pressures due to the trade liberalisation, Zimbabwean SMEs also have to contend with the shortage of foreign currency (World Bank, 2008).

Impact of exports on SMEs business turnover (Q33)

The question sought to assess the impact of exports on the turnover of SMEs in Zimbabwe and South Africa. It was motivated by the need to determine the quantity and significance of exports by those SMEs involved in exports. According to Tambunan (2011) there is a growing body of contributors, who believe that most SMEs in developing countries lack the necessary resources, particularly technological advances, and skills, to remain competitive in the global marketplace. A high impact of exports on turnover, would demonstrate that SMEs in Zimbabwe and South Africa were engaging meaningfully in globalised business, and thus dispel doubts on the ability of SMEs to survive in a globalised economy.

Results for SMEs in Zimbabwe show that more than half of the respondents indicated that exports had a low impact on their turnover. These results show that the majority of SMEs in Zimbabwe are yet to meaningfully engage in exports. These results are consistent with the study done by Mpofu (1998), which indicated that exports contributed only 15 percent of the SMEs turnover. In contrast the majority of the respondents from South African SMEs (63%) indicated that exports had a high impact on their business turnover.

Impact of exports on employment creation at SMEs (Q34)

This was a follow up question to the previous question, with the focus on the impact that exports have on employment creation among SMEs in Zimbabwe and South Africa. Economic theory suggests that exports create employment opportunities at micro and macro levels in the economy. At micro level, exports increase demand for products, leading to more workers being hired to increase production (Mohr and Fourie, 2004). At macro level, exports enhance liquidity in the economy and this promotes high demand, leading to increased investment. Increased investment is associated with increased employment opportunities (Mohr and Fourie, 2004).

Results from the study show that close to half of the respondents from SMEs in Zimbabwe indicated that exports had no impact on employment. The results suggest that most SMEs in Zimbabwe feel that exports have not made a meaningful contribution to employment creation. This is not surprising, given the fact that the results also indicate that the influence of exports on turnover, has been insignificant thus far. Similarly, more than half of South African SMEs noted that exports had no impact on employment creation.

Impact of exports on technological innovation at SMEs (Q35)

Trade liberalisation advocates assert that increased exports bring technological advancement to exporting companies (Falvey and Kim, 1992). It would therefore be interesting to find out whether this theory could be confirmed by exporting SMEs in Zimbabwe and South Africa.

Results from SMEs in Zimbabwe show that most exporting SMEs said that exports had a minimal effect on their ability to innovate. Similarly, results from SMEs in South Africa show that close to three quarters of the exporting respondents mentioned that exports had a low impact on innovation. A comparison of the results for SMEs in Zimbabwe and South Africa show that the majority of the respondents in both countries indicated that exports had a negligible influence on their ability to carry out technological innovation. These results are inconsistent with literature (Falvey and Kim, 1992) and this could be attributed to the fact that the exports were marginal in magnitude.

Factors that have had the greatest impact on SMEs export initiative (Q36)

The question sought to determine the factors that have the greatest impact on export initiatives of SMEs in Zimbabwe and South Africa. The results showed that most of the

respondents for SMEs in Zimbabwe indicated that import licensing requirements have the greatest effect on export initiatives.

According to the 2012 World Bank Doing Business Report, Zimbabwe is one of the most difficult places to do business. According to the report, a standard container of goods from Zimbabwe requires eight documents, takes 53 days and costs US\$3,280 to export (World Bank, 2012). Importing the same container of goods requires nine documents, take 73 days and costs US\$5 101. The World Bank (2012) said that, while it takes the same number of documents, it only takes 31 days and costs US\$1,960 to export in the rest of sub-Saharan Africa. Global comparisons, however, show that France requires only two documents for export and import, whilst in China it takes only five days to export (World Bank, 2012). The results from SMEs in Zimbabwe show that export licensing requirements constitute the greatest concern for the majority of SMEs involved in exports.

Results for SMEs from South Africa show that most respondents cited bureaucratic delays as the biggest challenge to the export business. These findings are consistent with those by the influential weekly newspaper, the Sunday Times, which stated that SMEs in South Africa were spending four percent of turnover just to deal with red tape (The Sunday Times, 2013). The paper noted that, although the World Bank's latest doing business index shows South Africa's ease-of-doing-business ranking has risen two places to 39 out of 185 countries, the country fell 10 places in the rankings, in terms of the ease of starting a business (The Sunday Times, 2013). Challenges referred to included lodging documents with the Companies and Intellectual Property Commission, registering for tax and Value Added Tax with the South African Revenue Service, and for Unemployment Insurance with the Department of Labour (The Sunday Times, 2013).

Destination of export for SMEs (Q37)

Most Zimbabwean SMEs involved in exports are exporting to African countries followed by Asia. These results are consistent with those from the Confederation of Zimbabwe Industries CZI-commissioned manufacturing survey, which noted that Zambia was the top export destination of Zimbabwe exports, receiving about 30 percent of the manufacturing sector's share of exports (The Financial Gazette, 2013). A report by Zimtrade, a government arm that specializes in promoting trade between Zimbabwean companies and export markets, shows that in 2011, Zimbabwe's exports were concentrated to Zambia, South Africa, Botswana, Kuwait, China and the United States of America (The Zimtrade Report, 2012). In South

Africa, the results show that more than half of the exporting SMEs export to Asia followed by Europe

Reasons for not exporting (for those SMEs not exporting) (Q38)

The question sought to ascertain why some SMEs in Zimbabwe and South Africa are not exporting their products. Results for SMEs in Zimbabwe show that nearly half of the SMEs that are not exporting cited lack of expertise on exports, more than one third cited lack of resources.

The results for SMEs in South Africa show that most SMEs are not exporting due to lack of expertise followed by lack of resources. Lack of expertise and knowledge of exports and a lack of resources to expand into exports, are common factors inhibiting SMEs in Zimbabwe and South Africa from exporting their products. However, the results also suggest that more SMEs in South Africa are content with the domestic market, compared to SMEs in Zimbabwe (22% for South Africa against 3% for Zimbabwe). The results also indicate that there are more respondents from SMEs in Zimbabwe that are not happy with export regulations, compared to the respondents from SMEs in South Africa (14% compared to 9%).

Whether SMEs have plans to export in the next ten years (Q39)

The aim of the question was to assess whether the statistics for SMEs involved in exports are likely to increase in the next 10 years. The results for SMEs in Zimbabwe show that nearly all of the respondents alluded to the fact that they want to be involved in exports. In South Africa, nearly two thirds of the respondents said that they would like to export their products. These results suggest that most SMEs in Zimbabwe and South Africa understand and appreciate the benefits of exports and, given the means, would participate in exporting.

There is, however, a significant difference in the numbers who want to participate in exports between SMEs in Zimbabwe, and those of South Africa. The results suggest that more respondents from SMEs in Zimbabwe want exports, compared to those of SMEs in South Africa (95% compared to 60%), and perhaps this stems from the fact that more SMEs in South Africa are content with the local market.

Rate the impact of foreign competition on the domestic market of your business (Q40).

The question sought to establish the level of impact of foreign competition on the domestic market in SMEs in Zimbabwe and South Africa. An understanding of this impact would

assist authorities in both countries in creating appropriate policies to assist the SMEs in both countries.

Results from SMEs in Zimbabwe and South Africa show that most respondents were negatively impacted on by foreign competition. The results are consistent with those published by the Confederation of Zimbabwe Industries-commissioned manufacturing survey for 2013, which showed that most manufacturing companies face competition from foreign firms. The clothing and textile industry appears to be affected the worst. According to Edgars Stores Limited, a listed clothing chain, an overflow of cheap Chinese imports has flooded clothing markets, triggering massive closures of clothing and textile enterprises (The Financial Gazette, 2013). In Zimbabwe, some of the oldest manufacturers, including the giant, David Whitehead Textiles Limited, have been decimated by the crisis, resulting in at least 10 000 workers losing their jobs in the 2011-2013 period (CZI, 2013).

Impact of strategic partnerships made with MNCs on your profitability (Q41)

The question sought to determine how many SMEs in Zimbabwe and South Africa had strategic partnership with Multi -National Corporations (MNCs) and the affect such partnerships have on the profits of SMEs, in both countries. A strategic alliance is a formal, long-term relationship between two or more firms in the supply chain, where all, some, or none of the firms may be domiciled in different locations (Gorg and Greenway, 2004).

The alliance involves linking some aspect of the firm's business toward a common end. This would necessitate the sharing of relevant and material information, the risks, and rewards of the relationship. The motivation of strategic alliances has to be attributed to globalization and the correspondent need to reduce time to market (Gorg and Greenway, 2004). Advocates of the trade liberalisation policy, argue that adoption of such a policy would see the growth of SMEs in being subcontracted by MNCs to supply some components to MNCs and such business arrangements have a positive influence on the profitability of SMEs (Gorg and Greenway, 2004).

The study results for SMEs in Zimbabwe show that more than three quarters of the respondents have not made any form of strategic alliances with MNCs. Similarly results from SMEs in South Africa show that close to two thirds of the respondents did not form strategic alliances with MNCs. This is hardly surprising, given the fact that most of the SMEs in the

two countries do not export. The results also suggest that, contrary to literature, strategic partnerships do not always produce positive returns but can also bring losses. These results are consistent with those of similar, prior studies. A study by Mpofu (1998) on the effect of trade liberalisation policy reforms in Zimbabwe, noted that there were very low levels of subcontracting among SMEs. The reason for this low level of subcontracting could be explained by the market protection policies and foreign exchange shortages, as it forces companies to adopt in-house production of all their requirements. According to the study, firms were reluctant to subcontract because of acute foreign exchange shortages, which created a lot of unpredictability in the market. Firms indicated that having control of all production subsystems was a way of managing uncertainty (Mpofu, 1998).

Rate the impact of ICT on your import and export initiatives (Q42).

According to Fine (1998), ICT-induced changes are transforming the rules of competition and giving rise to new types of competitive strategies: innovation-driven competition, time-based competition; mass customization; lean manufacturing, and demand-driven, built-to-order products. ICT has drastically cut time and distance, which are long-standing obstacles to communication. New communication technologies also allow companies to source inputs independent of location.

The results from the SMEs in Zimbabwe show that nearly all the respondents noted that ICT had a positive influence on their supply chain activities. Similarly more than three quarters (78%) of South African SMEs indicated that changes in ICT have positively affected their supply chain activities.

7.11.Summary of findings on the effects of trade liberalisation policy reforms on import and export initiatives of SMEs in Zimbabwe and South Africa.

Results from SMEs in Zimbabwe show that close to half of the respondents are importing some or all of their raw materials or finished goods, while the remainder are not involved in imports. However, the conclusion is that the desire by SMEs in Zimbabwe to import, does not have much to do with exploiting the advantages attributed to free trade. Rather, the desire stems from product unavailability in the local market.

On the other hand, results from SMEs in South Africa show that less than one quarter of the respondents are involved in raw material and product imports, while the remainder of the

respondents are not involved in imports at all. These results clearly indicate that SMEs have been slow to participate in international trade and thus harness the perceived benefits associated with open international trade, namely that of economies of scale and knowledge transfer. Most SMEs in Zimbabwe import their raw materials and products from Africa, specifically South Africa. This is inconsistent with a survey by the CZI (2012), which noted that most established Zimbabwe industries import from Zambia. Most South African SMEs, however, import from Asia. This finding is again inconsistent with available literature, which suggests that most imports into South Africa are from the European Union.

The research findings suggest that the Look East Policy, introduced by the Zimbabwe's authorities, has made some headway, as the number of SMEs importing from Asia has surpassed that of importing from Europe and other traditional regions. The study shows that most Zimbabwe and South Africa's SMEs are not involved in exports, and this confirms a study by Mpofu (1998), which showed a similar trend.

For the few Zimbabwean SMEs that are involved in exports, most were motivated to venture into exports by the need to obtain foreign currency, although a significant number were also attracted by the need for competitiveness. In contrast, the few SMEs from South Africa involved in exports, were motivated by the need to remain competitive. In Zimbabwe, the effect of exports on turnover was low. In contrast, the influence of exports on South African SMEs' turnover is substantial. This could imply that, while few South African SMEs are involved in exports, those that are involved are realizing increased returns from exports, compared to those in Zimbabwe.

Most SMEs in Zimbabwe and South Africa indicated that exports had no impact on employment creation. This is not surprising, given the fact that exports by SMEs in both countries are still at a very low level. Exports in Zimbabwe and South Africa have an insignificant effect on technological advancement for the SMEs in the two countries, contrary to claims of trade liberalisation policy reforms (Falvey and Kim, 1992). Bureaucratic delays are the biggest challenge facing exporting SMEs in both Zimbabwe and South Africa. The results indicate that most SMEs in Zimbabwe export to African countries. These results are consistent with those from the Confederation of Zimbabwe Industries (CZI)-commissioned manufacturing survey, which noted that Zambia was the top export destination of

Zimbabwe's exports, receiving about 30 percent of the manufacturing sector's share of exports (The Financial Gazette, 2013). Most SMEs in South Africa, however, export to Asia.

The results of SMEs in both Zimbabwe and South Africa; suggest that a lack of expertise and knowledge in exports is the main contributing factor to why most SMEs are not participating in exporting their products. Foreign competition has had a negative influence on the domestic market of SMEs in Zimbabwe and South Africa. Results for SMEs in both countries also show that most SMEs in the two countries have not made any form of strategic alliances with MNCs. The results also suggest that, contrary to literature, strategic alliances do not always produce positive returns but can also bring losses.

7.12. Summary

The study confirmed that men, as opposed to women, are the leading players in the economic sphere in Zimbabwe and South Africa. It was found that trade liberalisation policies had an adverse effect on employment, wages and turnover of SMEs in Zimbabwe and South Africa. The innovation and export ability of most SMEs in Zimbabwe and South Africa remain very scant owing to lack of knowhow and lack of resources. Empowerment initiatives in Zimbabwe and South Africa needs realignment as they are impinging on the attraction of foreign capital without which the fortunes of most SMEs will remain in doldrums. The next chapter focusses on key findings in relation to the study objectives as well as recommendation from the study.

CHAPTER EIGHT

CONCLUSION AND AREAS FOR FURTHER RESEARCH

8.1 Introduction

In chapter seven, a lot of observations and findings were highlighted. It was noted that trade liberalisation policy reforms had a negative impact on the operations of SMEs in Zimbabwe and South Africa. Poorly funded SMEs, most of which are still in the infancy stage, have found themselves trampled on by well-established Multi-National Corporations. The situation is made worse by the fact that most SMEs in the two countries are not involved in exports due to a lack of knowledge and resources.

This chapter sums up the key findings with respect to each of the sub objectives and also discusses the recommendations to ensure that SMEs become viable and help create job opportunities in Zimbabwe and South Africa. The key findings and observations will be done per each of the six sub-objectives. Thereafter, some recommendations to address the findings will also be discussed.

8.2.1. Biographical details

The objective was to ascertain the impact of trade and economic liberalisation policy reforms introduced in Zimbabwe on the biographical details of manufacturing SMEs in that country.

Findings

Findings from the study indicate that trade and economic liberalisation policy reforms introduced in Zimbabwe had no impact on most of the biographical details of the respondents. The study established that women continue to lag behind in terms of economic empowerment despite the fact that they suffered more hardships compared to men during the implementation of the trade and economic reforms. In line with expectations, most of the respondents running manufacturing SMEs in Zimbabwe and South Africa belong to the 31-50 age group. Most SMEs in Zimbabwe and South Africa are run by individuals who are highly qualified. Despite its inherent weaknesses, sole ownership remains the most dominant business ownership model in both Zimbabwe and South Africa. Owing to its low capital requirements, food processing remains the most attractive product for SMEs in Zimbabwe and South Africa.

8.2.2. Turnover, employment figures and wage structure

The objective was to establish the impact of trade and economic liberalisation policy reforms introduced in Zimbabwe on the turnover , employment figures and wages structure of manufacturing SMEs in that country.

Findings

It was found that that trade liberalisation policies negatively affected employment creation, turnover and wage structure of most SMEs in Zimbabwe. This outcome was also shared with South Africa's SMEs, with the exception of the question on wages structure where the majority of South Africa's SMEs said trade liberalisation policies had no impact on their wages and salaries. For Zimbabwe's SMEs, it was revealed that while the removal of minimum wage requirements was a welcome relief, real wages were eroded by inflation that set in after the introduction of trade liberalisation. Owing to rising costs of production and dwindling demand occasioned by removal of trade barriers, most SMEs resorted to retrenching some of their workers, thus increasing unemployment. Increased competition also led to a reduction in turnover and this further contributed to the pressure to reduce the workforce.

8.2.3. Innovation among SMEs

The objective was to establish the effect of trade and economic liberalisation policy reforms introduced in Zimbabwe, on the innovations of the manufacturing SMEs in that country.

Findings

It was revealed that trade and economic policy reforms did not assist in the innovation ability of SMEs in Zimbabwe and South Africa, contrary to existing literature. Most of the SMEs in Zimbabwe and South Africa did not carry out any innovation, citing lack of technical expertise and resources. It was however; also shown that innovation is a competitive tool that can improve the fortunes of SMEs in both countries. Most respondents from SMEs in Zimbabwe and South Africa indicated that being innovative had a high impact on their competitiveness.

8.2.4. Foreign direct investment and empowerment

The objective was to establish the impact of trade and economic liberalisation policy reforms introduced in Zimbabwe on the ability of manufacturing SME to attract foreign direct investment and ascertain how economic empowerment has influenced FDI.

Findings

Findings reveal that most SMEs in Zimbabwe and South Africa were negatively impacted by empowerment initiatives in their efforts to secure foreign investors. Potential investors in Zimbabwe were put off by the provision which required companies to cede 51 percent ownership to the indigenous people. In South Africa the results indicate that most respondents pointed to the negative publicity of empowerment and not so much on the policy itself, as a deterrent. Empowerment initiatives in the two countries also had a detrimental effect on employment creation as well as on the profits of SMEs in both countries.

8.2.5. Import and export initiatives

The objective was to establish the consequence of trade and economic liberalisation policy reforms introduced on the import and export initiatives of manufacturing SMEs.

Findings

The outcome of the study show that trade and economic policy reforms introduced in Zimbabwe and South Africa had negative effect on the import and export initiatives of SMEs. The study shows that about half of the SMEs in Zimbabwe are importing all or some of their raw materials or finished products. Such imports have been necessitated by product unavailability on the local market as opposed to the need to exploiting the advantages attributed to free trade. Results from South African SMEs show that less than a quarter of the SMEs are importing raw materials. It was also revealed that most SMEs in both countries are not exporting their products and not surprisingly, the impact of such exports on turnover, employment and technological innovation has been quite marginal in both countries. In short the study portrays a picture where SMEs are in a crisis; they have been swarmed with external competition on one hand and are failing to penetrate the external market, on the other.

8.2.6. Comparisons on Zimbabwe and South African SMEs

The objective was to compare the outcome with respect to all objectives against those from South Africa's manufacturing SMEs.

Findings

The study finds very little to separate between the outcomes from South Africa (a middle income country) and Zimbabwe (a low income country). On biographical details, the study established that in both countries most SMEs are run by men despite the fact that women constitute the greater percentage of the population. It was also established that most of the entrepreneurs running SMEs are in the 30-50 age group, in both Zimbabwe and South Africa. However, Zimbabwe has more respondents in the 18-30 age group than South Africa does, and one suggestion behind this scenario is dwindling job opportunities, which has forced many school leavers to become entrepreneurs. SMEs in both Zimbabwe and South Africa are run by highly educated individuals, increasing the chances of business success. Sole ownership is the most dominant business ownership model in both Zimbabwe and South Africa. Food processing remains the most attractive product for SMEs in Zimbabwe and South Africa. Most SMEs in Zimbabwe and South Africa are owner-managed.

The study established that trade liberalisation negatively affected employment and turnover in Zimbabwe and South Africa. However, the effect was severe in Zimbabwe because of the hyper-inflation. There were significant differences on the effects of trade liberalisation policies on the wage structure. SMEs in Zimbabwe overwhelmingly noted that the effect was negative (73,3 percent). SMEs in South Africa generally felt that there was no consequence, and perhaps that can be attributed to the fact that South Africa has strong trade unions which protect the interest of the workers.

The study revealed that most SMEs in both countries had not carried out any form of innovation. For South African SMEs, this should be surprising given the fact that the country has been the recipient of significant FDI inflows, when compared to Zimbabwe. Respondents from both countries pointed to limited knowledge and expertise, as well as a lack of resources, as the main contributing factors behind their failure to innovate. There were noticeable differences on the push factors for innovation by the few SMEs that employed innovation. From a Zimbabwean SMEs perspective, the local market was noted as the greatest push to innovate. South African SMEs, in contrast, were pushed by increased

international competition. Innovation had a high impact on competitiveness in both Zimbabwe and South Africa's SMEs.

Most SMEs in Zimbabwe and South Africa had not changed ownership, although the figure was higher for Zimbabwe, compared to that of South African SMEs. The majority of SMEs in Zimbabwe and South Africa cited failure to secure foreign partners as the main contributing factor for them not to involve other foreign nationals in running their businesses. Empowerment initiatives have negatively affected SMEs in both countries in terms of attracting FDI. Most respondents stated that the provision requiring companies to cede 51 percent ownership to the indigenous, as the most unwelcome regulation by potential suitors. In South Africa, however most respondents pointed to the negative publicity of empowerment and not the policy itself, as being a deterrent. More respondents from Zimbabwe's SMEs noted that empowerment policies have a negative effect on employment creation compared to South Africa's SMEs (73% compared to South Africa's 43%). Most SMEs from Zimbabwe believe that increased foreign investment will create job opportunities. In contrast, most SMEs in South Africa believe that increased FDI will have no effect on employment creation.

The study reveals that there are more SMEs in Zimbabwe which are importing when compared to South Africa's SMEs (44% compared to South Africa's 19%) and this owes to product unavailability in Zimbabwe. These results suggest that SMEs in both countries have been slow to participate in international trade and thus harness the perceived benefits associated with open international trade namely economies of scale and knowledge transfer. Most SMEs in Zimbabwe import their raw materials and products from Africa, specifically South Africa. In contrast, most South Africa's SMEs import from Asia.

The study shows that most Zimbabwe and South Africa's SMEs are not involved in exports. For the few SMEs that ventured into exports the motivation for doing so differed between Zimbabwe and South Africa's SMEs. In Zimbabwe, most SMEs were motivated into exports by the need to obtain foreign currency. In South Africa, the dominant factor for venturing into exports was the need to remain competitive. The effect of exports on turnover in both countries was low. Most SMEs in Zimbabwe and South Africa indicated that exports had no effect on employment creation. Exports in both countries have a minimal effect on

technological advancement for the SMEs. Bureaucratic delays are the biggest challenge facing exporting SMEs in both Zimbabwe and South Africa.

There are also differences in export destinations between SMEs in Zimbabwe and South Africa. Most SMEs in Zimbabwe export to Africa, while those from South Africa export to Asia, specifically India and China. A lack of expertise in export is the main contributing factor on why most SMEs are not participating in exporting their products. Foreign competition had a negative impact on the domestic market of SMEs in both Zimbabwe and South Africa. Most SMEs in the two countries have not made any form of strategic alliances with MNCs.

8.3 Recommendations for Zimbabwe and South African SMEs

8.3.1. Modify the empowerment legislation

According to the study, most SMEs in Zimbabwe are currently unable to attract foreign investors because the latter are unhappy about the provision that stipulates that at least 51% of ownership should be in the hands of the Zimbabweans. The recommendation therefore is that authorities in Zimbabwe should review the empowerment legislation so that it is investor-friendly. In particular Zimbabwe's government should consider reducing the mandatory percentage of local ownership to acceptable levels. Zimbabwe needs to take the route adopted by other African countries (South Africa, Ghana, Kenya and Angola) where empowerment programmes are being implemented without harm to the economy. The government should also consider adopting a sector approach to empowerment instead of the current blanket approach.

8.3.2. Share information on the positives of BEE

One finding from the study was that most respondents in South Africa associate the BEE with negatives (corruption, loss of investment opportunities, etc) Yet, many positives have been attained. South Africa thus needs to continuously publicise the impact of empowerment thus far, especially in the creation of a strong middle class. In this regard, South Africa's authorities need to ensure that BEE benefits extend to SMEs, irrespective of political affiliation and ensure that the changes attributed to BEE are clearly disseminated.

8.3.3. Prioritise foreign investment as a means to create employment

Zimbabwe and South Africa currently have competing pieces of policies, one that aims at empowerment and another that recognises the importance of foreign investment. Results from the study, for both Zimbabwe and South Africa, clearly indicate that priority should be accorded to foreign investment if unemployment problems in the two countries are to be addressed. This of course, does not mean doing away with empowerment. However, it simply means the empowerment should be toned down, so that it does not impinge on efforts to attract foreign investment.

8.3.4. Prioritise SMEs on funding

While the governments in Zimbabwe and South Africa recognise SMEs as engines of economic development and job creation, such acknowledgements have not been met with financial commitments to assist SMEs. Instead, funding has been concentrated to established businesses, with disappointing results. The governments of the two countries therefore need to change their mindset and start targeting SMEs for financial assistance

8.3.5. Reintroduce selected tariffs to protect local industry

As noted from the study, the assumption that exports would rise and compensate for increased external competition has not been realised in the two countries. Instead, what has been noted is the decimation of the local industry, mostly the cash-strapped SMEs due to their inability to compete on an equal footing with resource-rich entities from outside the country. Zimbabwe and South Africa are powerless to stop trade liberalisation. However, the authorities can introduce a phased approach to the elimination of tariffs, as was the case in China (Zhang, Zhang and Liu, 2007). This approach will allow the local and fragile SMEs to find their feet, so that they are able at some point, to compete effectively. With the current state of affairs, most SMEs will be wiped out, defeating the governments' goals of employment creation. Zimbabwe's government, in particular, needs to identify luxury products, which can be disposed of, without prejudicing the economic pillars. Tariffs for such goods can then be raised, so that the local industry, SMEs included, can be protected.

Similarly, South Africa needs to identify infant industries, which are being suffocated by cheap imports. The textile and paper manufacturing industries are typical examples. Such industries can be shielded from imports by raising tariff barriers.

8.3.6. Assist SMEs through training and identification of export markets

It was noted from the study that export requirements are a huge challenge to SMEs. Yet SMEs need to increase their exports and thus create jobs and grow the economy. It is therefore in the interest of the government and all role players, to ensure that SMEs' exports take off. Assistance in this regard can be two-dimensional. The study has shown that most of the SMEs are not exporting because they lack either resources or knowhow. The first part of addressing the problem could involve imparting skills on exports to SMEs in both countries.

The second part would involve the identification of export markets and linking the SMEs to such markets. Lack of knowledge on export destinations is a finding that featured prominently in both Zimbabwe and South Africa. In that regard, Zimbabwe and South Africa's authorities should consider making use of the existing trading missions in various parts of the world to identify markets for SMEs.

8.3.7. Compel MNCs to partner SMEs

It was revealed from the study that most SMEs do not receive any meaningful support from MNCs. This is contrary to theory which postulates that economic liberalisation will see SMEs benefitting through subcontracting or strategic partnerships with MNCs. In this regard, the authorities that grant licensing to MNCs ought to include a clause which compels the MNCs to subcontract part of their activities to SMEs as part of the entry conditions. In 2011, the Confederation of South African Trade Unions (COSATU), together with the South African government, was able to include a clause that guaranteed the takeover of Massmart by Walmart would not lead to job losses at Massmart. The SME clause could be created along similar lines.

In addition, the governments in Zimbabwe and South Africa should consider implementing a scorecard, under which MNCs that partner with SMEs for innovation receive some business deals, while those which shun the measure are excluded from doing business with government. Such a policy, which will operate along the current BEE guidelines, will thus act as an incentive, where the MNCs who partner with SMEs are rewarded, and those which are unwilling lose out.

8.3.8. Minimise regulatory requirements for SMEs

It was noted from the study that most SMEs indicate too many compliance issues in Zimbabwe and South Africa. It is therefore recommended that export regulatory requirements be reduced to an absolute minimum, in order that they do not choke SMEs' activities.

8.3.9. Provide incentives to SMEs who export

To encourage SMEs to export, authorities should provide some incentives. This will act as encouragement in attracting more SMEs to export and hence bring in much needed foreign currency.

8.3.10. Provide incentives to SMEs who increase workforce

Unemployment is at the centre of this study, and it was established that SMEs can make a meaningful difference in this regard. Authorities should encourage SMEs to employ more people, by providing incentives such as tax holidays. This can go a long way to creating employment for the unemployed in both countries. In South Africa, however, the issue of minimum wages has been highlighted as a deterrent by most SMEs. The South African authorities' need to take a closer look at this, with a view to scrapping the minimum wage condition for SMEs whose turnover is within a prescribed threshold. What South Africa needs currently, is getting people to work. Once this has been done, issues surrounding income can gradually be looked. Demanding decent work at decent pay is probably one of the factors why the country currently has such a huge unemployment problem.

The South African government should do more to counter negativity about BEE and ensure that the policy does not benefit a few who are politically well linked, at the expense of the common people.

8.3.11. Intensify efforts to assist women to start and run SMEs.

The study suggested that there are few women in both Zimbabwe and South Africa who are running or managing SMEs, yet women and children are the most affected when it comes to poverty. Women also constitute more than 50 percent of the population of both Zimbabwe and South Africa. Much has been done to promote women with regards to political decision making. However, the study shows that more needs to be done for women to be economically emancipated.

8.4 Summary of new information unveiled by the study

- Opening up of the economy does not necessarily mean technology transfer from MNCs to SMEs. The study established that most MNCs jealously guard their intellectual property rights.
- There are no major differences in the effect of trade liberalisation policy reforms between an economy classified as an upper middle class, and that classified as a low middle class. South Africa's economy is 40 times more than that of Zimbabwe, yet this does not show in how SMEs were affected by trade liberalisation policy reforms.
- Experience, not education, is the key to innovation. Results from the study suggest that retrenched entrepreneurs, as opposed to those who start businesses straight from school, implemented most of the innovation initiatives.

8.5 Further research areas

- *Zimbabwe's SMEs and value-addition on exports: Successes, challenges, and the way forward*

Authorities in Zimbabwe have indicated an urgent need to invest in value addition, instead of exporting raw commodities that have a negative level of impact on the economy. Sectors cited as having potential for value addition include cotton, textiles, and leather. In line with the view that SMEs should be seen as engines for economic growth, the suggestion is a greater role for SMEs in value addition. The research should thus focus on whether SMEs in Zimbabwe have embraced value addition, as a way to maximise their return, and whether there has been any positive returns for the SMEs that have embraced value addition. The research should also look at how the factors blocking some SMEs from doing value addition, can be addressed.

- *Critical success factors for South African SMEs on exports*

The research should focus on why some SMEs have been successful with entry into the export market, and the returns that have been attained by those SMEs, from a profitability, employment creation, and technology import point of view.

8.6. Conclusion

The impact of trade and economic policy reforms on the operations and management of small to medium enterprises in Zimbabwe and South Africa was negative. This confirms the scepticism raised by academics and analysts that the adoption of open trade would lead to the decimation of the SMEs owing to their failure to stand up to the mighty force of external competition. Addressing this problem is not a one-dimensional discourse nor is it an event. Among other measures, Zimbabwe and South Africa needs to re-introduce tariffs in certain economic areas so that the local infant industries which include SMEs can be shielded from external competition. In addition, there is need to modify entry conditions for big corporations such that such corporations are compelled to partner local SMEs. Authorities in both countries should streamline their policies and procedures so that such policies do not choke off SMEs but instead promote them. The perception at the moment is that most policies have a detrimental effect on the operations of SMEs. Failure to implement these measures could have disastrous consequences for SMEs in Zimbabwe and South Africa, translating to more unemployment and poverty in the two countries.

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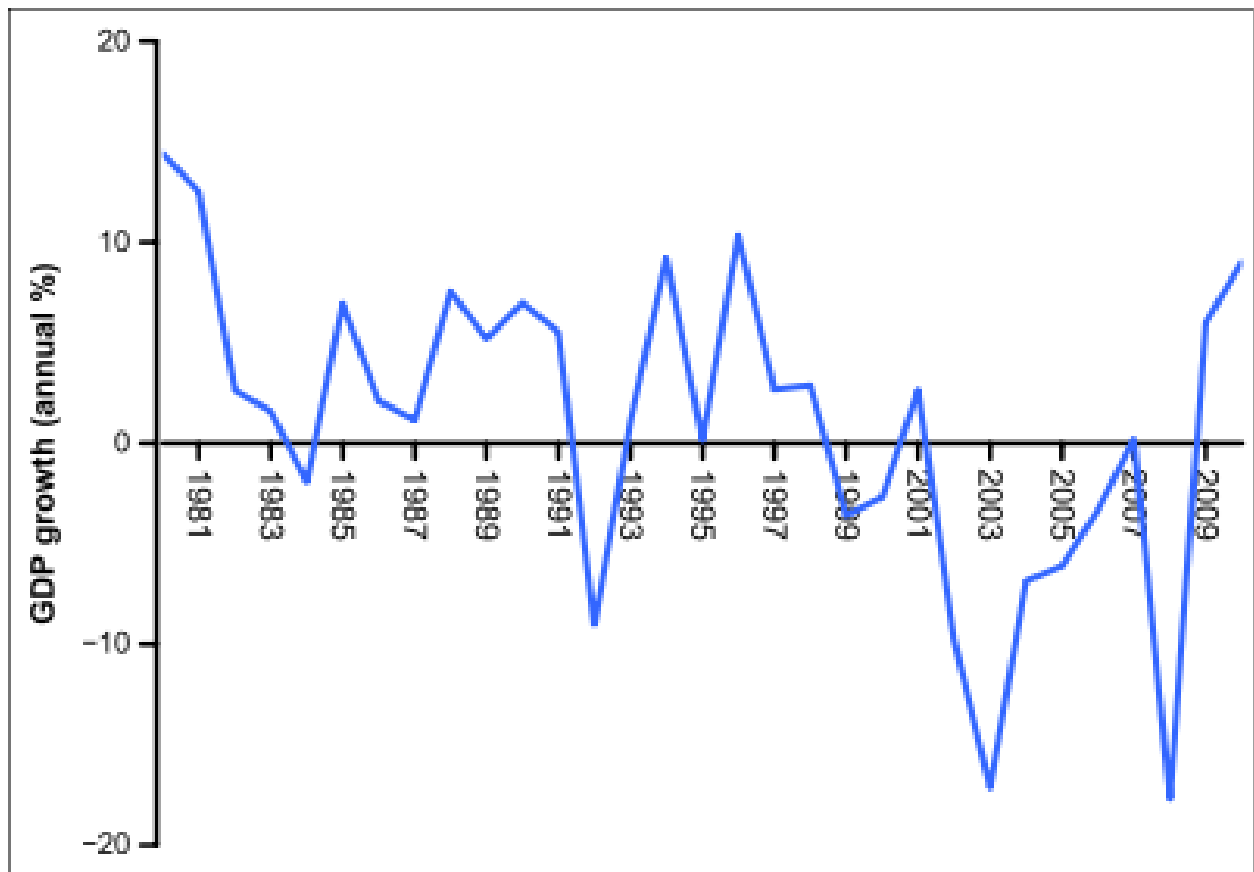
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Appendix A: SADC Countries (including Zimbabwe and South Africa)



Appendix B: Zimbabwe's economic performance, 1981-2009



Source: Government of Zimbabwe, 2013

Appendix C: SMEs participation and contribution to the economy

Table: SME participation and contribution to the economy (selected countries)

Country Name	Structure of the MSME Sector (% of all MSMEs)			SME Participation in the Economy		
	Micro	small	medium	SMEs	SMEs per 1000 people	SME employment (% total)
Brazil	93,9	5,6	0,5	4 903 268	27,4	67,0
China	n/a	n/a	n/a	8 000 000	6,3	78,0
Egypt	92,7	6,1	0,9	1 649 794	26,8	73,5
United Kingdom	95,4	3,9	0,7	4 415 260	73,8	39,6
India	94,0	3,3		295 098	0,3	66,9
Ghana	55,3	42,0	2,7	25 679	1,2	66,0
Mexico				2 891 300	27,9	71,9
Malawi	91,3	8,5	0,2	747 396	72,5	38,0
Russia				6 891 300	48,8	50,5
United States	78,8	19,7	1,5	5 868 737	20,0	50,9
South Africa	92,0	7,0	1,0	900 683	22,0	39,0

Source: World Bank (2007) as adapted by the National Credit Regulator (2011)

Appendix D: South Africa's performance in attracting FDI compared to other BRIC nations

	2005	2006	2007	2008	2009
South Africa	2,6	-0,1	2,0	3,5	2,0
Brazil	1,7	1,7	2,5	2,7	1,7
China	3,5	2,9	3,9	3,3	1,6
Russia	1,7	3,0	4,2	4,5	3,0
India	0,9	2,1	2,0	3,4	2,6

Source: World Bank 2010

Appendix E: South Africa exports and imports by country, 2007

Source	Exports (%)	Imports (%)
Japan	10,6	6,6
India	1,9	2,2
China	5,2	10,7
South America	1,2	4,2
European Union	30,6	33,9
South East Asia	2,2	5,2
Rest of Africa(excluding SADC)	4,7	-
United States of America	10,9	7,7
Australia	2,1	1,8
SADC	8,8	5,3
Taiwan	1,3	1,4
South Korea	-	2,2
Other	20,4	19,1
Total	100	100

Source: South Africa Revenue Services, 2013

Appendix F: Questionnaire

Impact of trade and economic liberalisation policy reforms on the operations of selected SMEs in Zimbabwe: A comparative study with South African experiences.

Instructions

- For Likert scale type statements and multiple choice questions, indicate your answers with a tick in the appropriate block.
- Any terms not understood by respondents and not featuring in the attached document rigorously explained by the researcher.
- While the 'comment' section is optional, it would be appreciated if you could motivate your response.
- MNC means Multinational Corporation.
- FDI means Foreign Direct Investment.

Section One (Demographic details)

In which country do you stay?

Zimbabwe	
South Africa	

Question 1: State your gender.

Male	
Female	

Comment.....

Question 2: State your age range

18-30 years	31-50 years	Above 50 years

Comment.....

Question 3: State your highest level of education

Ordinary level/Below matric	Advanced level/Matric	Certificate	Diploma	Degree	Post graduate

Comment.....

Question 4: State the legal status of your business

Sole –owner	Pvt Ltd Co	Cooperative	Partnership

Comment.....

Question 5: State the products you manufacture

Food processing	Clothing and footwear	Metal and plastic	Furniture

Comment.....

Question 6: State your title in the business

Owner	
Manager	

Comment.....

Question 7: When was your business opened?

Less than 10 years ago	10-20 years ago	20-30 years ago	Over 30 years ago

Comment.....

2.0. Trade liberalisation reforms and employment, wages and turnover of SMEs.

Question 8: Rate the impact of trade liberalisation policy on your employment figures.

No impact	Negative impact (less people employed)	Positive impact (more people employed)

Comment.....

Question 9: Rate the impact of trade liberalisation policy on turnover of your business.

No impact	Negative impact	Positive impact

Comment.....

Question 10: Rate the impact of trade liberalisation policy on the wage structure of your business

No impact	Negative impact (increase in wage structure)	Positive impact (decrease in wage structure)

Comment.....

3. Trade liberalisation reforms and innovation

Question 11: Has your company carried out any innovation?

Yes	
No	

Comment.....

Question 12: State the nature of innovation you carried out (for those that carried out innovation).

Product	Process

Comment.....

Question 13: State the factors that led you to carry out innovation?

(with 1 being the least important, 2 being neutral and 3 being the most important).

Factor	1	2	3
Local market			
International market			
Quality improvements			
Cost reduction			

Comment.....

Question 14: State the stakeholders who assisted you in your innovation

None	Local MNCs	Other local partners	International partners

Comment.....

Question 15: State the impact of your innovation on your business competitiveness

No impact	Low impact	High impact

Comment.....

Question 16. Innovation in your company was influenced by trade liberalisation policy.

Not sure	Disagree	Agree

Comment.....

Question 17: Rate the impact of innovation on employment in your business

No impact	Low impact(less employees)	High impact(more employees)

Comment.....

Question 18: Rank the possible reasons why your company has not carried out any innovation [for those SMEs that did not carry out innovation].

(with 1 being the least important , 2 being neutral and 3 being the most important factor)

Factor	1	2	3
Lack of expertise			
Poor financial resources			
Saw no need to innovate			

Comment.....

Question 19: Do you believe that you can carry out innovation in the future?

Yes	No	Not sure

Comment.....

Question 20: How do you think your company will be affected by technological innovation in the next 10 years?

No impact	Positive impact(more profits)	Negative impact(less profits)

Comment.....

4. Foreign Direct Investment and Ownership

Question 21: State whether there has been a change in the ownership of business in the last ten years.

Yes	
No	

Comment.....

Question 22. If there have not been changes in ownership structure of your business in the past ten years, rank the possible reason.

(with 1 being the least important, 2 being neutral and 3 being the most important factor)

Factor	1	2	3
Saw no need			
Failure to secure foreign partners			
Distrust for foreigners			
Need to maintain control			

Comment.....

Question 23: If your business has incorporated shareholders of foreign nationalities, state the possible reason for the incorporation

(with 1 being the least important, 2 being neutral and 3 being the most important factor)

Factor	1	2	3
Need to secure external funding			
Need for management expertise			
Need for competitiveness			

Comment.....

Question 24. What impact has empowerment initiatives had to your company's ability to attract FDI?

No impact	Positive impact(more FDI)	Negative impact(less FDI)

Comment.....

Question 25: Rate the impact of empowerment on profitability

No impact	Positive impact(more profits)	Negative impact(less profits)

Comment.....

Question 26: Rate the potential impact of empowerment on profitability in the next 10 years.

No impact	Positive impact(more profits)	Negative impact(less profits)

Comment.....

Question 27: Rate the impact of empowerment on the attraction of FDI at your business in the next 10 years

No impact	Positive impact(more FDI)	Negative impact(less FDI)

Comment.....

Question 28;Rate the effect of empowerment policy on employment creation by SMEs

No impact	Positive impact(more people employed)	Negative impact(less people employed)

Comment.....

5. Trade liberalisation and import and export initiatives.

Question 29: State whether you import some raw materials/products from outside the country.

Importing	
Not importing	

Comment.....

Question 30: Which continent do you import your raw materials/products(if you are importing)?

Continent	Tick
Africa	
America	
Asia	
Europe	
Australia	

Comment.....

Question 31: State whether you export your products or rely solely on the domestic market

Response	Tick
Exporting smes	
Non-exporting smes	

Comment.....

Question 32: What factors influenced you to export your products (for those that export their products)

(with 1 being the least important, 2 being neutral and 3 being the most important factor)

Factor	1	2	3
Need to attract foreign currency			
Need to attract technology			
Need to improve competitiveness			

Comment.....

Question 33: Rate the impact of exports on your business turnover

Impact	Tick
No impact	
Low impact	
High impact	

Comment.....

Question 34: Rate the impact of exports on employment creation at your business

Impact	Tick
No impact	
Low impact	
High impact	

Comment.....

Question 35: Rate the impact of exports on innovation at your business

Impact	Tick
No impact	
Low impact	
High impact	

Comment.....

Question 36: State the factors that have had the greatest impact on your export initiative

(with 1 being the least important, 2 being neutral and 3 being the most important factor)

Factor	1	2	3
Embargoes			
Export licensing requirements			
Standards			
Bureaucratic delays			
Foreign exchange controls			

Comment.....

Question 37: Which continent do you export your products to?

Continent	Tick
Africa	
America	
Asia	
Europe	
Australia	

Comment.....

Question 38: State reasons for not exporting (for those SMEs not exporting)

(with 1 being the least important, 2 being neutral and 3 being the most important factor)

Factor	1	2	3
No need to export, local market sufficient			
Unfavourable export regulations			
Lack of knowhow on exports			
Lack of resources to expand into exports			

Comment.....

Question 39: Do you have plans to do exports in the next 10 years?

Yes	
No	

Comment

.....

Question 40: Rate the impact of foreign competition on the domestic market of your business

No impact	Low impact(less competition)	High impact(more competition)

Comment.....

Question 41: State the impact of strategic partnerships made with MNCs on your profitability

Response	No strategic partnerships done with MNCs	Strategic partnerships done but no financial impact	Strategic partnerships done with positive financial impact	Strategic partnerships done with negative financial impact
Tick				

Comment.....

Question 42: Rate the impact of ICT on your supply chain activities

No impact	Negative impact	Positive impact

Comment.....

42. What is your overall impression on the impact of trade liberalisation policy reforms on your business?

.....
.....
.....

.....

Thank you for your time

Appendix G: Products manufactured from the sectors chosen for the study

<i>Sector</i>	<i>Products</i>
Food Processing	<ul style="list-style-type: none"> • Oil expressing • Fruit & vegetable drying • Peanut butter/jam making • Juice making • Milk processing, • Freezit making • Food flavours • Honey processing • Meat processing • Kapenta fishing and processing • Grinding mills • Mealie – meal • Stock feed <p>Bread</p> <ul style="list-style-type: none"> • Biscuits • Sweets • Cakes & scones
Textile & Footwear	<p>Cotton processing</p> <ul style="list-style-type: none"> • Yarn spinning • Weaving • Knitting • Crocheting • Tie & dye • Tailoring <p>Protective Clothing</p> <p>Uniforms</p> <p>Corporate wear</p> <p>Ladies, gents and children's wear</p> <p>Embroidery</p> <p>Linen</p> <p>Curtains</p> <p>Bags</p> <ul style="list-style-type: none"> • Shoes • Jackets • Belts
Metal and Plastic	Auto

	<ul style="list-style-type: none"> • Electrical • Mechanical • Computer Assembly
Furniture	Household furniture Tables Chairs Lounge suits Kitchen table Wardrobes Beds School furniture Office furniture

Appendix H: Letter of introduction to respondents



Dear Business Owner/Manager
Harare (Zimbabwe)/Pretoria (South Africa)

Ref: Questionnaire for a Doctorate Research

This letter serves to request for your permission and assistance in the administration of the attached questionnaire, which is part of a research title: Impact of trade and economic policy liberalisation reforms on the operation of selected (SMEs) in Zimbabwe: A benchmarking study with South African experiences. The outcome of the research will be shared with all the relevant stakeholders; the primary objective being the improvement of operations of SMEs in Zimbabwe and South Africa.

I take this opportunity to thank you for your time to complete the attached questionnaire

Yours sincerely
Trymore Chingwaru



Department of Entrepreneurial Studies
Faculty of Management Sciences
Durban University of technology
(0027)73 354 6089

Appendix I: Research editor's Certificate

25 February 2014

Doctor Marie de Beer
Durban University of Technology
Durban, South Africa

Ref: Research Editor's Certificate

This serves to certify that I have gone through the research titled 'Impact of trade and economic policy liberalisation reforms on the operation of Small to Medium Enterprises (SMEs) in Zimbabwe: A benchmarking study with South African experiences.'

In my opinion, the research is free of grammatical defects.

Your sincerely

Appendix J: Selected SMEs Government Schemes in South Africa.

<i>Enterprise organization</i>	<i>Description</i>	<i>Comment</i>
The Black Business Supplier Development Programme (BBSDP)	A cost-sharing grant offered to black owned small enterprises to assist them in improving their competitiveness and sustainability. Grants of up to R1 million are given out for enterprises with an annual turnover of up to R35 million.	Since its inception in 2002 till March 31 2010, 9 657 enterprises with total disbursements of R187.5 million have benefited
The Export Market and Investment Assistance (Emia):	This scheme assists businesses to attend trade fairs or to conduct trade visits by refunding a significant portion of their airfare, accommodation, transport of samples and marketing material.	In 2008/09 a total of 1 276 businesses benefited from R110.9 million in funding, through the scheme. This is down from the 1 332 assisted in the 2008/2009 year, when R106.4 million was disbursed in funding. Emia supported 779 projects in 2009/10.
The Co-operative Incentive Scheme:	Provides start-up funding from R10 000 to R300 000 to co-operatives, with the Government covering 90 percent of the funding in the form of a grant.	Co-operative Incentive Scheme: From 2006 to September 7 2010, 357 co-operatives had been assisted to the tune of R71.2m
The Enterprise Development Programme:	Matching grants are provided to small manufacturing firms and businesses in the tourism sector.	The Enterprise Development Programme: 164 tourism projects (to the value of R417 million) and 290 manufacturing projects (R1 billion) had been approved up to the end of February 2010
Support for Industrial Innovation (Spii)	Spii funds research and development (R&D) for new innovations in manufacturing, through a grant of 50 percent to 75 percent of up to R3m and has been in operation since 1993.	Spii had funded 1 025 projects to the tune of R933 million up until March 31, 2010. In 2007 the programme was chosen by the OECD and World Bank as the best incentives programme within the South African Government
Technology and Human Resources for Industry Programme (Thrip).	Thrip supports scientific research and aims to foster collaboration between academic institutions and industry through a cost-sharing grant offered by the department. The programme is managed by the National Research Foundation (NRF).	Between 2006/07 and 2009/10, 866 SMMEs were funded to the tune of 240.3m.
Workplace Challenge Programme	Cluster-based initiative run by the Department of Trade and Industry and managed by Productivity SA, an agency of the Department of Labour. The programme aims to increase the productivity of businesses big and small, by getting them to work together in a cluster and share learning.	In all 19 clusters consisting of 187 enterprises in all were up and running in the 2010 financial year

Source: Timms (2001:150)

