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Commercial Implications of the Current Situation in Zimbabwe

Once hailed as a leader of liberation and the bread basket of the subcontinent, the southern African country of Zimbabwe is currently besieged with economic and political strife. Per capita income has fallen, as have levels of health and life expectancy. Some 60% of Zimbabweans now live below the poverty line, while economic growth in the country has dropped to 1%. Discontent in the country is widespread. Throughout the second half of 1998, the government faced urban food riots over food price rises. A 50% inflation rate, a 50% drop in the value of the Zimbabwean dollar and a 67% increase in the price of petrol, have fueled further dissatisfaction.

Economic decline has exagerbated the country's political malaise: corruption and cronyism, coupled with human rights abuses and controls over civil and political liberties, has led to domestic and international criticism of President Robert Mugabe's Zanu-PF dominated government. Bilateral and multilateral donors are withholding funds from the country in protest over these, Mugabe's threat of expropriation without compensation of 1,400 mainly white owned commercial farms, and the deployment of Zimbabwean troops in the Democratic Republic of Congo (DRC).

Commercial Implications

Developments over the past 18 months have created a negative climate for doing business in Zimbabwe. The US Office of Trade's Annual Report, released in April 1999, cites that "corruption, cronyism, high tariffs, and threatened land seizure and exchange controls" characterise the foreign investment climate in Zimbabwe. For example, irregularities in the government's tendering process which have seen ministers, party officials, and their investment interests receive tenders. The recent sale of the Hwange Thermal Power Station to Malaysia's YTL power utility received international criticism when it was reported that the government did not consider tenders from other entities. Such tendering irregularites, in addition to the government's "indigenisation" programme, which has benefited party allies at the expense of other black entrepreneurs, further threaten foreign investment; the 1998 World Investment Report cites that the average annual Foreign Direct Investment in Zimbawbe over the period 1986-91 amounted to US$10 million, while in 1995 it jumped to US$118 million, and had dropped to US$70 million by 1997.

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Similar complaints of corruption, cronyism, and mismanagement have been waged against Zimbabwe by the International Monetary Fund. After placing a temporary moratorium on IMF loans to Zimbabwe in 1995 (in protest over the budget deficit, government spending, and the slow pace of privatisation), the IMF finally granted the country $176 million in loans in 1998. The IMF stipulated that the loans would be paid in quarterly increments. In further protest over Mugabe's proposed land expropriation without compensation and Zimbawbe's participation in the DRC, the IMF has been withholding its quarterly loan installment of $53 million for the past seven months. When and if the IMF will approve the transfer of the funds remains to be seen. Without loans from the IMF, Zimbabwe may be unable to service its debt and meet its balance of payments and government spending obligations. Other bilateral sources may be unwilling to grant loans to the country if it receives no loans from multilateral organisations. The Zimbabwe economy will suffer without IMF loans and other foriegn aid; according to the 1998 World Development Indicator report, 1996 foreign aid accounted for 5.2% of GNP in the country, while debt stood at 9.2% of GNP.

In 1997 alone, 79 Zimbabwean companies closed down. The country's commercial farming sector is suffering. High taxation on sales and capital gains and price controls, which postpone social unrest but force millers to produce wheat under cost, threaten the very existence of the sector. Tobacco farmers are among those protesting over a 10% levy on sales at upcoming auctions, and have threatened to withhold crops from sale in the future. This would not bode well for Zimbabwe's waning foreign currency reserves.

In August 1997, Mugabe announced that government would seize upwards of half of the country's large-scale commercial farms without compensation. Although few doubt the need for more equitable land distribution in Zimbabwe, expropriation without compensation and the absence of a coherent land reform and resettlement policy spawn domestic and international criticism. The possibility of loan default by large-scale commerical farmers (most of whom owe money on their land) and the threat of declining production, criticism from the International Monetary Fund, and lack of resettlement funding, have further delayed the land reform process.

In late October 1998, the government announced its monetary and fiscal plans to combat high inflation, the budget deficit, and public debt. **Finance Minister Herbert Luyrerwa** claimed that the plan would bring Zimbabwe's budget deficit down from 6.5% to 6% during the next fiscal period. The plan hinged on a 49% increase in revenue, brought on by increases in foreign investment and exports. Such increases would in theory be brought on by proposed taxation policies which favour foreign investment and exports. Given the devaluation of the Zimbabwean dollar, lack of confidence in the economy, and slow rates of economic growth worldwide, increased foreign investment and government revenue seem unlikely.

"An opposition seems to be rising in the form of a mass democratic movement from the country's civil society"

Another long-term challenge to Zimbabwe and its economy remains the prevalence of HIV/AIDS. According to the 1999 World Almanac, life expectancy in Zimbawbe has dropped from 56 years in 1996 to 39 years in 1998. The loss of economically productive members of society, coupled with an ailing health care system and the high cost to pension and life assurers of maintaining AIDS orphans, bodes ill for the economy.

Compounding these economic woes and health concerns have been recent human rights violations in a country which has increasingly become intolerant of any form of opposition, including that of the media. As a tool to maintain order and quell discontent, Mugabe has used the state-owned media to voice propaganda, the Central Intelligence Organisation to monitor individuals, and his executive powers to re-enact colonial laws to silence opposition. The military and presidential "approval" of the February arrest and jailing of two journalists who reported on unrest among Zimbabwean troops in the DRC, and the subsequent ignoring of judicial writs to release the journalists, resulted in a constitutional crisis between a powerless judiciary and a military who, supported by the executive, illegally held and tortured the dissenting journalists.

Relations with South Africa

Although trade between South Africa and Zimbabwe tends to be unbalanced, relations between the two countries remain important. In 1996, South Africa exported Z$13 billion worth of goods to Zimbabwe, and imported Z$3 billion worth of goods from the country, making South Africa Zimbabwe's single largest trading partner. About 41% of Zimbabwean trade is with South Africa; Zimbabwe exports cotton, sugar, tobacco, and straw for basket weaving to South Africa. Although in 1997 South Africa conducted 28.5% of its trade in Africa with Zimbawbe, trade with Africa comprises a small portion of South Africa's total trade. In 1997, only 14% of South African exports and 3.7% of South African imports were to and from African countries, respectively.

Sentiment within the Mugabe government and the Zimbabwe populace towards South Africa reflects this imbalance. The imbalance of trade with South Africa places Zimbabwe in a vulnerable position; hence the adoption of tariffs on goods coming from South Africa. The aim of such tariffs is to protect the Zimbabwean market from South African goods, thereby reducing Zimbabwe's dependence on South African exports, and raising further revenue for the government.

Strained relations are not only characteristic of the economic sphere, however. Before President Nelson Mandela's release and the subsequent democratisation of South Africa, Mugabe played a dominant role in both the Southern African Development Community and southern Africa. In recent years Mandela's personality and South Africa's increasingly important role in Africa have challenged, if not upstaged, Mugabe's former position on the subcontinent. Next to the moderate, mediating, statesman South Africa has in Mandela, Mugabe resembles a dictator, especially in the eyes of the international community. Mugabe has found alternative ways to assert his power in recent months: dictating expropriation of land for a reform programme which has not of yet been drawn up, but which has seen several ministers gain title to large tracts of land; and leading a "coalition" of allied southern African forces under the auspices of the security organ of SADC, of which Mugabe is chair, to support Kabila in the Democratic Republic of Congo. Although not officially sanctioned by the chairman of SADC, Mandela, several thousand Angolan, Namibian, and Zimbawbean troops are among the allied force supporting Kabila; over 10,000 troops, or 60-65% of the total force, is Zimbabwean.

Prospects

Despite its economic and political troubles, Zimbabwe does have great potential. The country has a very high literacy rate (85%), which has only recently been threatened by economic hardship. Given adequate rain, support services, and a well-devised land reform and resettlement programme, Zimbabwean agriculture could increase its output considerably. Zimbabwe is currently the world's third largest producer of tobacco, and produces some of the best grade cotton in the world.

In order to capitalise on the country's potential, Zimbabwe must adopt policies which promote economic growth, limit inflation, reduce needless government spending and corruption while addressing the country's social and income inequalities. According to the country's Reserve Bank Governor Leonard Tsumba, the government must adopt, among other policies, measures to target Zimbabwe's rampant inflation. Such policies include the support of foreign nad local investment and exports through tax incentives, and the selling of inefficient, costly state-owned enterprises.

Changes in economic policy must be mirrored by changes in the government of the country, however. Given that Zanu-PF shows little evidence of positive transformation, changes can only be brought on by an opposition which targets and eliminates mismanagement of funds and corruption. Such an opposition must check executive abuse of power while opening the government to rule by democracy.

Although at this stage it is fairly fragmented, an opposition seems to be rising in the form of a mass democratic movement from the country's civil society. The National Constitutional Assembly (NCA), an umbrella organisation of human rights activists, lawyers, farming associations, women's organisations, religious groups, and trade union members, among others, is currently pressing government to draft a new constitution. Led by the head of the Zimbabwe Congress of Trade Unions (ZCTU), Morgan Tsvangirai, the NCA demands a change in electoral system and focus on "social, economic and constitutional issues".

After much hesitation and an early attempt to commandeer the process, Mugabe agreed to a 240-member presidential committee on constitutional reform in April 1999. Although the committee claims to have equal representation from Zanu-PF and members of civil society, in reality Mugabe enjoys the right to appoint or remove members. As a result numerous members of NCA are refusing to partcipate in the process.

The potential reform of the Zimbabwean constitution has political implications for Mugabe: reform may limit the number of presidential terms for any one person. If this is the case, then Mugabe may not be able to run for the upcoming presidential election in 2002. Reform may also target corruption and cronyism through greater transparency, and call for the support of a free media and other civil and political rights which may sanction criticism of Mugabe and Zanu-PF. Although Mugabe does have the support of parliament and the military, efforts to limit criticism can only prolong his, and his party's, tenure in office.

In addition to the obvious opposition in the NCA, Mugabe faces opposition from other political entities as well. Although Zanu-PF holds an overwhelming majority in parliament, in recent months organised opposition to the Mugabe presidency has increased. In December, the Movement for Independent Electoral Candidates announced that it had established the Zimbabwe Union of Democrats (ZUD). At present the ZUD is an association of opposition members in the urban areas. Although not yet a party with a coherent policy platform and large support base, the ZUD does stand as a potential opposition to Mugabe and Zanu-PF.

There is also the ZCTU. This year in March, the ZCTU announced plans to form a political wing; political analysts agree that any party which enjoys the support of labour will be a serious threat to the Mugabe presidency. At this stage, the political wing is far from being a political party, as, not unlike the ZUD, the ZCTU does not have a coherent policy framework, nor does it have concrete recommendations to address the country's economic decline.

Human rights activists and NCA, ZUD, and ZCTU members alike are looking to the 2001 parliamentary elections and the 2002 presidential elections for democratic change in government in Zimbabwe. Given widespread discontent in the country, and the number of opposition groups now involved in political and economic debate, one thing is certain: the upcoming elections, if not rigged by Mugabe or Zanu-PF, will bring a number of opposition members into government.

The success of opposition members in organising and influencing economic and political policy in Zimbabwe is key to creating a favourable commercial environment in the country. Only when the country adopts sound fiscal and monetary policies, stabilises the Zimbabwe Dollar and puts an end to corruption, cronyism and abuse of power, will domestic and foreign investment return to the country.