



The Centre for International Governance Innovation

TECHNICAL PAPER

State Fragility

Picking Up the Pieces of Zimbabwe's Economy

HANY BESADA
NICKY MOYO

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Technical Paper No.5
October 2008

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Addressing International Governance Challenges

TO SEND COMMENTS TO THE AUTHOR PLEASE CONTACT:

Hany Besada
Senior Researcher and Program Leader, Health and Social Governance,
CIGI
hbesada@cigionline.org

Nicky Moyo
Director of Development,
Enterprise Africa Trust
nickymoyo@yahoo.com

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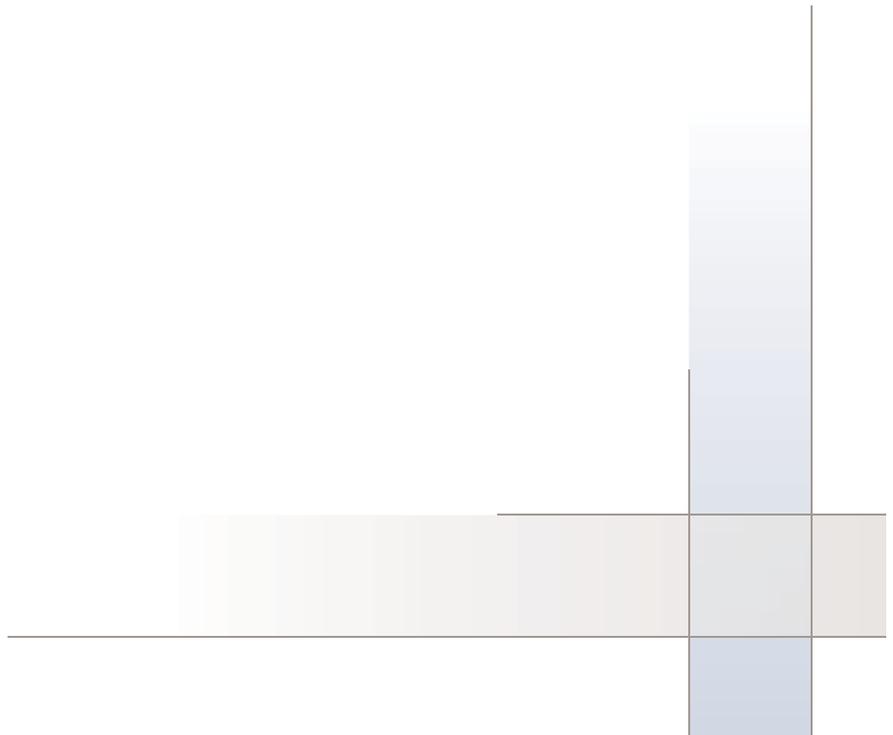
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About the Authors

Hany Besada is a Senior Researcher and Program Leader, Health & Social Governance, at the Centre for International Governance Innovation (CIGI) in Waterloo, Ontario. He holds an MA and a BA in International Relations from Alliant International University in San Diego, California, where he specialized in peace and security studies. Prior to joining CIGI, he worked as the Business in Africa Researcher at the South African Institute of International Affairs in Johannesburg, and as a research manager at Africa Business Direct, a US trade and investment consulting firm, also in Johannesburg. While studying in the United States, he was a policy analyst at several nongovernmental and governmental research institutes and offices, including Amnesty International, the office of US Senator Dianne Feinstein, the United Nations Association of the USA, and the Joan B. Kroc Institute for Peace and Justice.

Nicky Moyo is Director of Development at Enterprise Africa Trust, a Zimbabwean-based policy research and nonprofit organization. He holds a Bachelor of Commerce degree in financial management from the University of South Africa and an Advanced Degree in good governance from the University of Pretoria. He has more than eight years of working experience in the private sector and civil society-related developmental work. His main research interests include poverty reduction, health and economic governance, debt relief, development finance, and private enterprise development – all areas in which he has presented papers at various regional and international conferences. He is also a trustee of the Zimbabwe Grace Trust, a disability rights and development NGO, which he co-founded in 2004.

Abstract

Zimbabwe's prolonged crisis illustrates the consequences of short-sighted and inappropriate economic policies, as it continues to fail to realize its potential to become a strong, independent state. Triggered in part by the Mugabe government's decision to ignore fiscal constraints, and exacerbated by increased social unrest and ballooning inflation, Zimbabwe's economic performance lags far behind that of neighbouring South Africa or Zambia. Miraculously, Zimbabwe has managed to avoid falling into complete collapse – the result of low but consistent levels of foreign direct investment, official development assistance, and strong Sino-Africa relations. This paper surveys Zimbabwe's economic crisis, and discusses some of the factors impeding the country's downfall. It concludes with recommended areas of focus for economic recovery.

1. Introduction

Once regarded as one of the most prosperous countries in sub-Saharan Africa, today Zimbabwe finds itself in the midst of the worst economic meltdown witnessed anywhere on the continent. Poor economic policies and a corrupt government constitute the major factors behind the longest, deepest economic decline seen anywhere outside a war zone. This paper explores socio-economic trends in Zimbabwe leading up to the crisis and factors that have prevented the country from total collapse. It also explores the contributions of foreign investors to extractive industries, which have helped to prop up government and the public sector. Further issues, such as emerging Sino-Africa relations and Zimbabwe's "Look East" policy¹ to attract foreign direct investment and expand trade and bilateral ties with East Asia are examined, as is the use of aid instruments by multilateral and bilateral donors. The paper closes with a proposed framework for economic recovery, based on high-road and low-road scenarios and relying on cross-country studies of lessons and experience, so as to develop a "compact" for Zimbabwe's recovery by various stakeholders.

Zimbabwe's economic condition has deteriorated substantially over the last decade, with inflation skyrocketing. Since breaching the technical definition of hyperinflation when it passed 600 percent in January 2006 (Wines, 2006), the official annual inflation rate, the highest in the world, reached 1 million percent by May 2008.² Zimbabwe's high inflation rate could be blamed on an extremely large public sector and subsidized loans availed to priority sectors – agriculture, in particular. Despite relatively strong revenue collection, the fiscal deficit – including quasi-fiscal activities by the Reserve Bank of Zimbabwe to support parastatals and other strategic sectors that were showing a loss, including mining and agriculture and primarily export subsidies of cotton and tobacco – constituted more than 80 percent of gross domestic

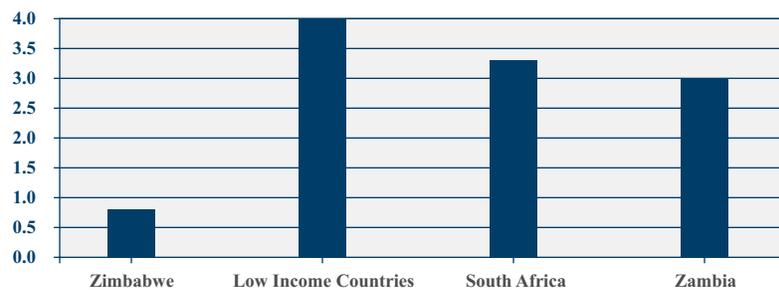
¹ At the turn of the new millennium, with the continued deterioration of foreign relations and a reduction in trade and aid volumes from the West, Zimbabwe designed a new policy meant to ameliorate the situation. The "Look East" policy is intended to discover new acquaintances in the East, particularly in Asia and islands in the Far East and the Pacific.

² "Zimbabwe: Inflation hits one million percent as prices continue to skyrocket," *All Africa*, May 21, 2008. Available at: <http://allafrica.com/stories/200805210873.html>.

product (GDP) in 2006.³ With limited scope for external financing, a large part of the public sector financing needs were met via money creation, which further fuelled the rapid monetary expansion and a sharp rise in inflation. Due to persistent high inflation, the Zimbabwean dollar has continued to lose value on the parallel market – by the end of January 2008, it was trading for about Z\$6 million to the US dollar, falling to Z\$70 million to the US dollar by March 2008, although the official interbank rate was Z\$30,000 to the US dollar (Robertson Economic Information Services, 2008).

Zimbabwe's external position has also been under considerable pressure. The current account deficit has deteriorated steadily over the past five years, primarily due to the collapse of agricultural exports. Although the mining sector, on account of higher world prices, led by platinum exports, has partly compensated for the loss of revenue, the volume of exports has actually decreased, which is largely due to smuggling and corruption. In the September 2007 supplementary budget presentation to the Zimbabwean Parliament, the minister of finance, Samuel Mbengwegwi, indicated that the country was losing at least US\$50 million a week due to the smuggling of minerals (Munda, 2007). According to the World Bank, Zimbabwe's

Figure 1: Months of Gross International Reserves, Zimbabwe and Neighbouring States, 2007



Source: World Bank, 2007b

³ The World Bank placed Zimbabwe on nonaccrual status in October 2000 making the country ineligible for International Development Association (IDA) and International Bank for Reconstruction and Development (IBRD) loans granted on a concessionary basis and requiring clearance of arrears before new loans can be made. As of September 2007, the World Bank had approved 19 IBRD loans and 14 IDA credits for a total of approximately US\$1.6 billion, although inactive due to the arrears situation. Zimbabwe has also been in continuous arrears to the International Monetary Fund since February 2001.

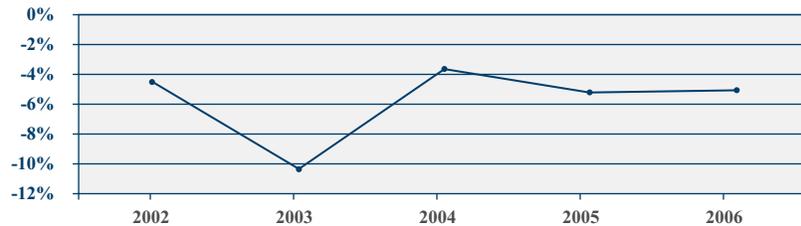
international reserves were put at US\$58 million, or just over half a month of imports, in early 2007 (see Figure 1). On the other hand, the country's external debt was put at US\$4.7 billion, equivalent to more than 300 percent of exports, with external arrears estimated at US\$2.7 billion; about 70 percent of Zimbabwe's external debt is owed to official creditors, including multilateral creditors such as the International Monetary Fund (IMF), the African Development Bank, and the World Bank (World Bank, 2008a).

By the late 1990s, the country's economic output growth began to slow from a high of US\$8.8 billion in 1990 to a mere US\$3.3 billion in 2005, following a balance-of-payments crisis caused by the implementation of a 1998 bilateral trade agreement with South Africa, its largest trade partner, which resulted in de-industrialization, as well as unbudgeted expenditures to finance a costly war in the Democratic Republic of Congo (DRC) in 1997.⁴ In addition, repeated droughts in 1992 and 1996 put further pressure on the Treasury to finance food imports, while agricultural exports collapsed. By 2002, the national economy was in a steep depression as a result of poor macroeconomic management, caused by the unbudgeted distribution of pensions to more than 40,000 “war veterans.” Subsequently, political violence, caused by the wider impact of the land reform program implemented in 2000, resulted in an approximate 51 percent decline in food and export crop production between 2000 and 2007, as virtually all commercial farming activity was destroyed by the government's expropriation of land (Boucher, 2004). The important links that the commercial agricultural sector had with the financial and manufacturing sectors also resulted in the economy's collapsing by 46 percent between 1999 and 2006 (Hawkins, 2006),

⁴ Facing a looming economic crisis and increasing discontent with his rule, Zimbabwe's president, Robert Mugabe, tried to shift national attention to the DRC crisis. By June 2000, Mugabe had intensified Zimbabwe's military aid to the DRC, increasing the number of troops committed to the conflict to 11,000, whose role was to offer logistic support to the DRC in its war against rebels backed by Uganda and Rwanda. Mugabe indicated that, as a result of his involvement in the DRC, he expected to lure long-term financial rewards. Indeed, Mugabe saw economic and preferential trade deals involving access to such minerals as diamonds and gold for Zimbabwe in the coming years. In October 1999, Zimbabwe's state-run Agriculture and Rural Development Authority was awarded more than 500,000 hectares of farming land in the DRC, to be used for maize (corn), soya beans, and livestock and other business opportunities for Zimbabwean companies. Opposition to Zimbabwe's war effort mounted, however, with reports that Zimbabwe had lost US\$200 million worth of military equipment since its troops entered the DRC, and that the war was costing Zimbabwe US\$1 million a day and hundreds of lives.

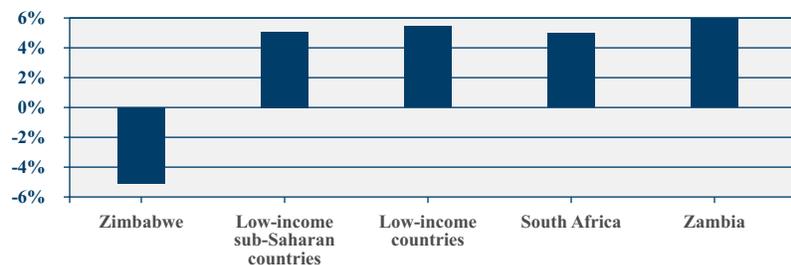
and by a further 5.7 percent in 2007. The World Bank (2008c) has forecast another decline of approximately 4.9 percent in Zimbabwe's GDP for 2008. By comparison, Zambia experienced an average growth rate of 6 percent during the same period (IMF, 2007). (Figures 2 and 3 provide a sense of Zimbabwe's poor performance.) Meanwhile, Zimbabwe's per capita income in purchasing power parity terms was put at US\$2,437 in 2006, a decrease of more than 23 percent since 1998.⁵ Moreover, with the exchange rate becoming progressively overvalued, foreign exchange shortages have become commonplace. Manufacturing, exports, foreign direct investment (FDI), and official development assistance have decreased by more than 50 percent during the past decade.

Figure 2: The Decline in GDP Growth, Zimbabwe, 2002-2006



Source: IMF, 2007

Figure 3: Real GDP Growth, Zimbabwe and Neighbouring States, 2006



Source: IMF, 2007; USAID, 2007

⁵ According to the IMF and World Bank, real GDP per capita in US dollars was estimated at US\$502 in 2006, down from US\$651 in 2002.

A few high-cost commercial transactions keep government and the armed forces supplied with only the most basic operational needs, but nearly all forms of public service have since collapsed. With a life expectancy of 36 years, poverty rates exceeding 80 percent, and more than 1.8 million Zimbabweans receiving food aid in 2007, a deepening crisis of disproportional levels is unfolding, even by regional standards.

Inflation

The inflation rate in Zimbabwe, already the world's highest, continues to soar, with no signs of abating.⁶ Such a high rate of inflation wreaks havoc on the economy and severely restricts household purchasing power. It also fuels civic discontent, which has resulted in strikes by a number of groups in the public sector (for example, by teachers in September 2007 and by junior doctors in March 2008). The overall poor 2006-2007 agricultural season, coupled with a continued shortage of foreign currency, is expected to fuel further inflation for the greater part of 2007-2008. Official inflation figures, which are often subject to embargo, are likely to be understated substantially in any case, since about one-third of the basket reflects price-controlled items such as bread, milk, and sugar, and consumption weights are outdated. In January 2008, the Zimbabwean National Chamber of Commerce indicated that the official inflation figures did not capture prices of imported goods – the majority of shops in Zimbabwe are now filled with imported goods, since local factories have failed to meet demand, due to productivity shortfalls. The imported goods, which are outside the control of the National Incomes and Pricing Commission, are currently being priced at black market parallel rates.

While the initial output collapse is widely attributed to the chaotic seizure of commercial farms, once the backbone of the economy, other factors have also contributed to further economic decline in recent years. These include high and accelerating inflation; price distortion as a result of extensive controls and regulation, relating to the exchange rate in particular, which is traditionally fixed by the Reserve Bank of Zimbabwe at a highly overvalued rate; the collapse of investor confidence, due to unpredictable policies and lack of respect for property rights, particularly in the agriculture and mining sectors; and minimal external financing, due to deteriorating

⁶ For a more extensive discussion of Zimbabwe's high inflation, see Munoz (2007).

relations with creditors and donors. With the official exchange rate pinned at highly overvalued levels, as well as declining gross international reserves, exports declined from US\$3.1 billion in 2000 to US\$1.9 billion in 2006 (IMF, 2007). At the same time, investments declined sharply, and shortages of food, fuel, and electricity continued as a result of pervasive government policies, introduced in June 2007, that included price freezes on basic goods.

The effects of inflation and high money growth in Zimbabwe have contributed to an interesting phenomenon, that of the growth of the Zimbabwe Stock Exchange (ZSE). The ZSE is currently rated the best-performing stock exchange in the world, and grew by a record 322,111 percent in 2007, well ahead of the average annual inflation rate of 24,000 percent that year.⁷ This jump was due to share prices that were far in excess of increases in consumer prices. With the country suffering from catastrophic policies, increasingly the only means for the government to fund itself has been money supply growth. This, however, has only exacerbated the monetary crisis. The flood of new money has caused the existing value of money in circulation to plummet and the prices of all sorts of goods to explode. As prices become more misaligned, the basic decision making ability of Zimbabweans has become impaired and the day-to-day functioning of the economy has deteriorated. Perversely, all of this has forced the government to issue even more currency to make up for budget shortfalls and to buy short-term financial support. At the latest measure, the country's consumer price index rose at a rate of 1 million percent at the end of February 2008. As a result, the ZSE is thought to be currently growing about three times faster than consumer prices. This relative out-performance versus general prices is a result of stocks being a chief entry point for the flood of newly created money. Ordinary Zimbabweans face limited choices when it comes to converting their worthless currency into foreign dominations, as hard currency has become quite scarce and strict rules limit exchangeability. As far as capital improvements are concerned, there has been little incentive on the part of companies to invest in their already-losing enterprises, as economic prospects look bleak.

It therefore comes as no surprise that the government in Harare has adopted policies aimed at curbing inflation. Following a policy document pointing out that quasi-fiscal losses had amounted to approximately 75 percent of GDP by 2007 and

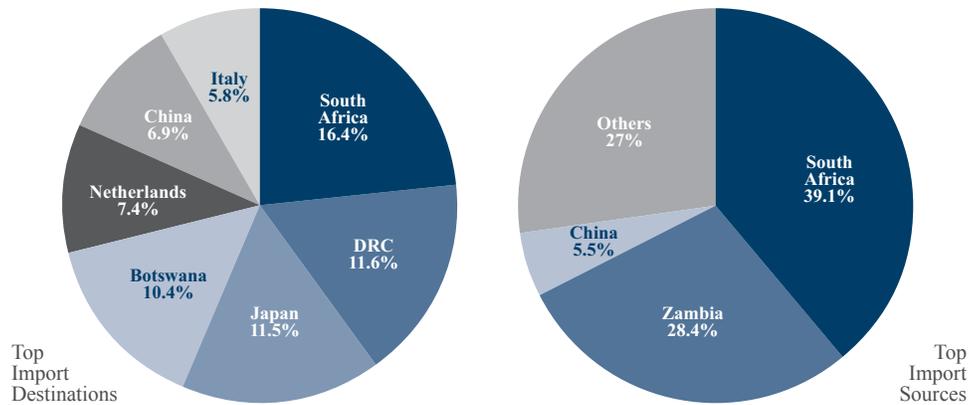
⁷ "Zimbabwe Stock Exchange shows massive growth." Business Report, January 2, 2008.

that the government's total budget deficit was larger than the national GDP, the Reserve Bank announced that no government ministry or public sector enterprise would be permitted to seek Reserve Bank funding. Moreover, in January 2007, Reserve Bank governor Gideon Gono proposed to curb the budget deficit via a policy known as “the Social Contract,” which entailed an agreement among labour, business, and government to keep wages and, more importantly, prices of goods and services, as well as government demands on the economy, constant from March 1, 2007, onwards. The agreement, which took effect on June 1, 2007, centred essentially around price stabilization and the restoration of production viability, pricing, and management, and mobilization of foreign currency (Robertson Economic Information Services, 2008).

To the government's dismay, the currency continued to lose value, moving from Z\$35,000 to the US dollar in May 2007 to Z\$120,000 to the US dollar by June. This forced the majority of entrepreneurs and petty traders to factor the rising depreciation of their local currency into the cost of the goods they traded, thereby increasing their prices. As predicted, fuel prices shot up quickly, prompting other prices to follow suit. The government responded by dismantling the Social Contract negotiations and ordering a 50 percent reduction in the prices of basic foods – bread, palm oil, sugar, and maize meal, in particular. This was enforced by youth militias and the police, particularly in opposition strongholds in major cities and towns. Traders who failed to comply were summarily rounded up under the charge of attempting to cause economic collapse. Although consumers benefited from these drastic actions, many traders and business people closed their businesses and move to neighbouring South Africa.

Like compressed air looking for an exit point, money has been pouring into the shares of ZSE-listed firms. High inflation in Zimbabwe has already contributed to worsening poverty levels, affecting middle-class people, the majority of whom cannot earn enough to feed their families (Clemens and Moss, 2005). Empirical studies demonstrate the direct link between the growth of parallel market prices, the decline in export competitiveness, and the consequent contraction of output in Zimbabwe. Without an immediate stabilization package and comprehensive medium-term structural reforms, the country is poised to experience even more turbulent economic prospects (UNCTAD, 2007a).

Figure 4: Zimbabwe's Top Export Destinations and Import Sources, 2006



Source: United States 2008

2. Zimbabwe's Export Performance

Export performance is important for the sustainability of the larger domestic economy. Trade, which was put at 35.5 percent of Zimbabwe's GDP between 2000 and 2002 (World Bank, 2007b) continues to form a substantial share of the economy. In 2006, exports stood at US\$1.95 billion, or around 38 percent of total GDP (United States, 2007), with the top destinations being South Africa (16.4 percent), the DRC (11.6 percent), Japan (11.5 percent), Botswana (10.4 percent), the Netherlands (7.4 percent), China (6.9 percent), and Italy (5.8 percent) (United States, 2008). (See Figure 4.)

In the 1990s, Zimbabwe's export performance was well above the average export performance of other African countries due to its comparative advantage in agriculture, which was once dominated by large commercial farms and agro-business. However, following the increasing overvaluation of the currency, export performance decreased alarmingly at an average annual rate of 6 percent between 2000 and 2006 (WTO, 2007). By contrast, Zambia experienced an export growth rate of 33 percent during the same period, with exports topping US\$3.7 billion – almost double that of Zimbabwe. In addition, imports have declined by 5 percent annually since 2000 (World Bank, 2007b). This has put pressure on resource availability, and has also starved industry, forcing numerous companies to close their doors.

Meanwhile, Zimbabwean industries have become increasingly uncompetitive, mainly as a result of import-substitution practices, which used to guarantee the majority of firms access to domestic markets. On the international scene, a small number of local firms are sustained via past arrangements, such as the Zimbabwe-South Africa Trade Agreement⁸ and the Lomé Convention.⁹ The most recent version of the agreement was signed in August 1996, at which time the tariffs and quotas on textile imports to South Africa were lowered. These features have resulted in Zimbabwean industry's being unable to compete in a fully liberalized trade regime. The current unstable macroeconomic environment has further exacerbated Zimbabwean industry's lack of competitiveness. The lack of competitiveness is further worsened by the country's lack of access to waterways; high transportation costs and fuel shortages mean that most goods in the country are trading far above their market value or are in short supply.

Currently, Zimbabwe is a member of various regional and international bodies, such as the Southern Africa Development Community (SADC),¹⁰ the Common Market for East and Southern Africa (COMESA),¹¹ the World Trade Organization

⁸ The Zimbabwe-South Africa duty-free regime or preferential tariff quota applies to items including dairy products, potatoes, birds, and eggs. Specific types of woven fabric (for example, cotton) are subject to concessional tariff rates when they meet the specified levels of Zimbabwean content – 75 percent in most cases.

⁹ The first Lomé Convention (Lomé I), which came into force in April 1976, was designed to provide a new framework of cooperation between the then European Community (EC) and developing ACP (African, Caribbean, and Pacific) countries – in particular, former British, Dutch, Belgian, and French colonies. It had two main aspects. First, it provided for most ACP agricultural and mineral exports to enter the EC duty free. Preferential access, based on a quota system, was agreed to for products such as sugar and beef, in competition with EC agriculture. Second, the EC committed US\$3 billion for aid and investment in the ACP countries.

¹⁰ The SADC, formed in Lusaka, Zambia, on April 1, 1980, was transformed from a coordinating conference into a development community in Windhoek, Namibia, on August 17, 1992, when the declaration and treaty were signed at the Summit of Heads of State and Government, thereby giving the organization a legal character. The member states are Angola, Botswana, the DRC, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Tanzania, Zambia, and Zimbabwe. The SADC headquarters are located in Gaborone, Botswana.

¹¹ COMESA is a regional organization established to encourage trade by reducing and eventually eliminating trade barriers, and to create a common market. A free trade area under COMESA has now been established among Zimbabwe, Djibouti, Egypt, Kenya, Madagascar, Malawi, Mauritius, the Sudan, and Zambia. Other member states of COMESA are Angola, Burundi, the Comoros, the DRC, Eritrea, Ethiopia, Libya, Rwanda, the Seychelles, Swaziland, and Uganda. COMESA is set to become a customs union at the end of 2008, with a common external tariff schedule that will see no tariffs on raw materials or capital goods, 10 percent on intermediate goods, and 25 percent on finished goods; see the COMESA at: www.comesa.int.

(WTO),¹² and the Cotonou Agreement.¹³ Zimbabwe has signed free trade agreements with both the SADC and COMESA, although its membership in the two groups has done little to boost its export performance; rather, it has complicated its trading relationship with the two regional organizations and affected bilateral trade with member states.

Zimbabwe's deteriorating export performance has also been dealt a major blow by the misalignment of real exchange rates, which have negative effects on the growth rate of real per capita income, exports, agricultural output, and investment (see, for example, Edwards, 1989a, 1989b; Cottani, Cavallo, and Khan 1990; Frenkel and Khan, 1990; Ghura and Grennes, 1993). Exchange-rate misalignment means lower profitability in the sectors where output prices are lowered relative to prices in other sectors. Very often, misalignment takes the form of domestic currency overvaluation, which damages trade activities. This, in turn, adversely affects growth performance, since productivity improvements tend to be concentrated in exports or imports, which are competing industries. Moreover, distorted exchange rates have negative indirect effects, usually referred to as smuggling activities, which cause the supply of goods to legal or official markets to decrease.

Zimbabwe's experience provides a typical example of a country that pursued inappropriate foreign-exchange policies and suffered as a result. Due to Zimbabwe's foreign-exchange controls, there has been thriving black market demand for foreign currencies, dominated by the US dollar and the South African rand. Ethnic tension has become an important determinant of export performance in Zimbabwe. The increasing incidence of ethnic conflict, and the much-publicized consequences of these conflicts, has led economists to draw a correlation between ethnic diversity and economic phenomena, particularly with regard to economic growth and investment (see, for example, Alesina et al., 2003). Easterly and Levine (1997) find that the very

¹² Zimbabwe became a member of the WTO on March 5, 1995.

¹³ The Cotonou Agreement was signed in June 2000 between the European Union and the ACP countries. Since Lomé I in 1975, the EU has granted nonreciprocal trade preferences to the ACP states. Under the Cotonou Agreement, however, this system is expected to be replaced by a new scheme, which is to take effect in 2008, generally known as Economic Partnership Agreements. This new arrangement is expected to provide for reciprocal trade agreements, whereby the EU will provide duty-free access to its markets for ACP exports while ACP countries will be expected to provide duty-free access to their own markets for EU exports.

high level of ethnic diversity of countries in Africa constitutes an important contribution to their poor performance. La Porta et al. (1999) point out that ethnic diversity results in corruption and low efficiency in government, which expropriates land from disadvantaged ethnic groups. In this context, in 2000, Zimbabwe initiated a fast-track land reform program to redistribute land from white to black farmers. The program redistributed, often by use of force, over 80 percent of former commercial farmland, changing radically the racial distribution of people with access to land. Nine thousand farms were listed for acquisition by the end of 2004, but only a few farmers were compensated, and many farms remained unallocated to new settlers.

In recent years, with much of the agricultural sector in disarray, the government has sought to maintain and even to boost cotton exports, a major source of foreign-exchange revenues aided by continued financial support, tax breaks to farmers, an uninterrupted electricity supply, and access to modern machinery by farmers. Cotton has now overtaken tobacco as the country's major foreign-currency earner, generating more than US\$102 million in 2006 (tobacco yielded US\$83 million (UNCTAD, 2007c). Zimbabwe's national output of cotton jumped from 198,000 tones in 2005 to 260,000 tones in 2006, according to the Cotton Company of Zimbabwe (2006), which attributes the increase to linkages with cotton growers in the Midlands province. An official report (End Poverty 2015 Millennium Campaign, 2004) estimates that Zimbabwe has the capacity to produce up to 600,000 tons of cotton per annum.

3. National Competitiveness

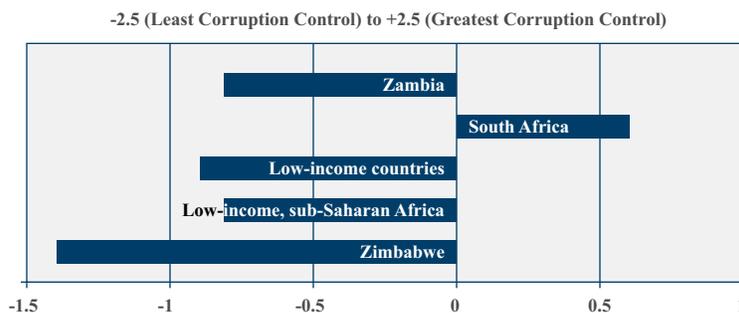
The Mugabe government's controversial land reform program was accompanied by significant losses in production. According to the University of Zimbabwe, agricultural output declined by 51 percent between 2000 and 2007. Land reform has resulted in significant losses in agricultural capital stock and production, uneven distribution of land and infrastructure, a lack of security of tenure, and the impoverishment of a large proportion of farm workers. Zimbabwe's poor macroeconomic and institutional environment further decreases its competitiveness compared to that of other countries in the region. Zimbabwe ranks below its neighbours in the World Economic Forum's Growth Competitive Index, which looks at how 104 countries fare with respect to the quality of their macroeconomic environment, the state of their public institutions and, given the increasing importance of technology in the development process, their technological progress.¹⁴ However, the World Bank's

Doing Business Index, which identifies specific regulatory policies that encourage or discourage investment, productivity, and growth, finds that the microeconomic conditions for doing business in Zimbabwe are comparable to regional averages.

In terms of gross national income (GNI) per capita, the cost of starting a business and registering property is reportedly higher in Zimbabwe than the regional average.¹⁴ Zimbabwe's labour market is less rigid than the regional average, but performs poorly in comparison to those of Zambia, Uganda, and Botswana (World Bank, 2008b). Moreover, Zimbabwe scores lower than its neighbours, with exception of Uganda, on the Public Institutions Index, which includes, among other factors, measures of corruption and rule of law (see Figure 5).

Institutional barriers to doing business, including corruption in government, constitute one of the most important determinants of private sector development. In addition to declining economic management, the business environment in Zimbabwe is bleak and worsening. In 2006, the country ranked 153rd out of 175 states on the World Bank's global index on the Ease of Doing Business, down eight places from the previous year. In regional terms, it ranked 124 places below South Africa and 51

Figure 5: Control of Corruption Index, Selected Countries



Source: World Bank, 2007a

¹⁴ For example, it is currently estimated that Zimbabwe has 41.3 telephone lines per 1,000 people and 12 personal computers per 1,000 people, both well below the global average.

¹⁵ It takes 96 days to start a business in Zimbabwe, 35 days in Zambia, 61 days in Swaziland, 35 days in South Africa, 124 days in Angola, 35 days in Malawi, 113 days in Mozambique, and 95 days in Namibia (World Bank, 2008b).

Table 1: Indicators of the Ease of Doing Business, 2008

Indicator	Zimbabwe	Region	OECD
<i>Starting a business</i>			
Procedures (number)	10	10.8	6.0
Duration	96	56.3	14.9
Cost (% GNI per capita)	21.3	148.1	5.1
<i>Dealing with licences</i>			
Procedures (number)	19	18.1	14.0
Duration (days)	952	262.5	153.3
Cost (% of income per capita)	11,799.0	2,549.2	62.2
<i>Employing workers</i>			
Difficulty of Hiring Index	0	41.7	25.2
Difficulty of Firing Index	60	42.2	27.9
Nonwage labour cost (% of salary)	4	12.3	20.7
Firing costs (weeks of wages)	446	68.3	25.7
<i>Registering property</i>			
Procedures (number)	4	7	4.9
Cost (% of property value)	25	11.1	4.6
<i>Trading across borders</i>			
Documents for export (number)	9	8.1	4.5
Time for export (days)	52	35.6	9.8
Cost to export (US\$ per container)	1,879	1,660.1	905.0
Documents for import (number)	13	9.0	5.0
Time for import (days)	67	43.7	10.4
Cost to import (US\$ per container)	2,420	1,985.9	986.1

Source: World Bank, 2008b

places below Zambia. With poor performance in a number of indicators (see Table 1), donors and the private sector will need assurance of a fundamental transformation in the political situation before resuming and expanding existing investment and aid to the impoverished country. In particular, the task of the Zimbabwean government remains one of restoring law and order and safeguarding existing property rights against nationalization, while tackling corruption, red tape, and bureaucracy. Programs dealing with the strengthening of the regulatory environment would help to ensure a return of foreign investment to Zimbabwe and a private-sector-driven economic recovery.

Foreign Direct Investment in Zimbabwe

According to the United Nations Conference on Trade and Development (UNCTAD, 2007d), there are at least 66 foreign affiliates of transnational corporations currently operating in Zimbabwe. This compares favourably with South Africa, which, although it has more than 260 foreign affiliates, has a GDP more than 200

times the size of Zimbabwe's.¹⁶ Corporations that are based in the United Kingdom or listed on the London Stock Exchange are represented in major sectors, including mainstream banking, manufacturing, and mining. Among such corporations are British American Tobacco, Unilever, Barclays Bank, Anglo American, Rio Tinto, Standard Chartered Bank, and SAB Miller. There is also a huge presence of South African corporations, including Nedbank (via MBCA, a banking subsidiary), Pick 'n Pay in the retail sector and Implats in the mining sector. Only a handful of enclave economic activities, however – those with special access to foreign exchange – have escaped the country's deplorable economic decline. The more privileged of these enclaves include the supremely valuable resources sector (platinum, diamonds, gold, sugar, timber, gas, and uranium). Other attractive sectors include hotels located in the vicinity of Victoria Falls, as well as hunting safaris.

One of the most successful economic sectors is platinum mining. Two of the largest investors are the South African-based Implats Group, via a controlling stake in Zimplats, and the South African-listed mining house Anglo Platinum, which has a 51 percent controlling stake in Unki Mine in southern Zimbabwe. In 2006, Implats ceded 36 percent of its shares to the Zimbabwean government in return for a licence to undertake a long-delayed expansion of output from its current 90,000 ounces per year. In 2007, the operating profits of Implats' Zimbabwean-controlled operations were close to US\$150 million, and in its 2007 annual report to shareholders, Implats indicated that its Zimbabwean operations represented the ultimate “sky blue” growth opportunity for the company over the long term. Implats further indicated that its planned production target was approximately 245,000 ounces of platinum by the 2010 financial year (Implats, 2007). The company also hopes to mine palladium, rhodium, gold, and nickel in the mineral-rich Great Dyke region in central Zimbabwe.

Following suit, Anglo Platinum, a subsidiary of the London Stock Exchange-listed Anglo American Plc, has also invested in the Zimbabwean platinum sector. In December 2006, the company stated that the Unki project was still subject to some Zimbabwean and South African regulatory approvals and that development costs were under review in light of the economic and exchange-rate environment

¹⁶ In 2007, South Africa's GDP Purchasing Power Parity stood at US\$467 billion, while Zimbabwe's was US\$2.2 billion (United States, 2008).

in the country. While regulatory approval was being finalized, the company indicated that the development of specific mine surface infrastructure projects, including dams, roads, and housing, would continue (Anglo American, 2006).

As in other low-income African countries, in Zimbabwe the mineral activities of multinational corporations (MNCs) are capital intensive, provide few employment opportunities, and have high import content with very little value added. For example, even though most of the platinum operations are located in central Zimbabwe, there is little evidence of the development of downward and upward industries, processing, and refining in the country, or of a serious benefaction policy or strategic framework by the Mugabe government. Beyond providing their employees and surrounding communities with housing, roads, and electricity, multinationals in the extractive sector do not seem to be involved in long-term development efforts. Most of these operations are wholly owned by foreign investors (rather than joint ventures), and a large share of their foreign-exchange earnings is retained abroad. Operations in Zimbabwe tend to operate as enclaves, weakly integrated into the domestic economy. Some of the main channels for potential knowledge circulation between MNCs and domestic firms – namely, linkages, joint ventures, and labour turnover – are largely absent.¹⁷

Foreign direct investment (FDI) has all but evaporated. In 1998, FDI was about US\$400 million (Zimbabwe, 2004). By 2006, that number had fallen to US\$30 million (Stevenson, 2008); by comparison, Zambia, with a similar-sized economy, attracted more than US\$350 million in 2006 (UNCTAD, 2007d). Put differently, the flow of FDI into Zimbabwe in 2006 amounted to 2.3 percent of GDP, compared with 7.3 percent in 1998 (UNCTAD, 2006). During the same period, Zimbabwe received one of the lowest scores on UNCTAD's Index of Inward FDI Potential at 0.04 on a scale of 0 to 1 (poorest to best). In comparison, the low-income sub-Saharan countries on average received 0.10 while South Africa received a score of 0.18.

Deepening frustration has dogged Harare's attempts to forge new economic relationships with Asia, as it has become increasingly clear that Indian, Chinese, and Russian investors are as wary of Zimbabwe's glaring political and economic

¹⁷ For a detailed analysis of implications of foreign direct investment and knowledge transfer in the least-developed countries, see UNCTAD (2007b).

risks as their Western counterparts. Cooperative projects are no sooner announced than they are abandoned. An example is that of Rio Zim, a subsidiary of the Australian-based mining conglomerate, Rio Tinto Plc, which announced plans to make a US\$200 million investment in its diamond operations in southern Zimbabwe and to build a 2,000 megawatt power station in southeastern Zimbabwe, powered from its Sengwe coalfield, close to the Mozambican border. These proposals, however, were subject to the company's securing a business-friendly deal with the Zimbabwean government. Reportedly, Rio Tinto now has doubts about continuing the operations of its Zimbabwean gold mine. The uncertainty is attributed to fears about the nationalization of some of the country's mines. In March 2008, the *Indigenization and Economic Empowerment Act*, which would transfer 51 percent of ownership to indigenous Zimbabweans, was signed into law. President Mugabe indicated that the new law would not affect the mining industry, for which a separate bill was drafted, but despite such assurances it remains unclear whether the law pertains to the nation's mining industry as well (Nkomo, 2008).

Meanwhile, the Impala Platinum company has indicated that it is well positioned to meet the 51 percent Zimbabwean mine ownership requirement. Impala Platinum's executive director, Les Paton, was quoted in March 2008 as saying that Implats had secured agreements with the Zimbabwean government to “give-up-ground” (Garande, 2008) – entitling the company to a Zimbabwean ownership credit of between 19.5 percent and 29.25 percent at Zimplats, in which Implats has the controlling interest. Impala is currently in the process of expanding Zimplats' production to 160,000 ounces of platinum a year, according to Paton. In 2006, Implats addressed security issues at its Zimbabwean platinum operations, acknowledging that the company was facing a number of challenges. It said, however, that these were local management issues, and that a good skills base, relatively long-life assets, and a good infrastructure were motivating factors in ramping up production over the long term (Implats, 2006).

FDI in sub-Saharan Africa is commonly perceived to be driven largely by natural resources and market perception. The authorities in Harare seem to share this view. According to the World Investment Report (UNCTAD, 2007d), a combination of large local markets, natural resource endowments, a good infrastructure, low inflation, a good investment framework, and an efficient legal system promote FDI. Zimbabwe has a good infrastructure and abundant natural resources, which are factors that favour deep-pocketed non-risk-averse investors who are not faint-hearted but willing

to hang in there for the long haul. Another factor has been crossborder investments by South African companies in Zimbabwe. In 1998, Pretoria signed a bilateral trade agreement with Harare offering security for South African capital under the guise of facilitating free trade between the two countries. The treaty stated, with other neoliberal instruments, that it would not only allow for the protection of regional capital, but also for its entrenchment by regularizing extractive exploitation in one country and consumption in the other.

Despite the *Indigenization and Economic Empowerment Act's* mooted state ownership of 51 percent of all mining operations, it is anticipated that Pretoria will provide South African mining houses, such as the Anglo Platinum Group and Implats, with protection from expropriation. In fact, South African firms have periodically aligned with Pretoria's deep interests in Zimbabwe by providing financial relief to Harare via various loans to the state or state operations. For example, the corruption-riddled National Oil Company of Zimbabwe borrowed in excess of US\$75 million from the Commercial Bank of Zimbabwe, in which the South African-based ABSA bank has an interest. This took place in April 2000, when Harare was imploding with a socio-political crisis (Mabanga, 2005). In 2005, the South African government managed to update protection of trade and investment, and provisionally won a drop of 15 percent of corporate tax on the mining sector. Again, a number of South African-based banks and corporations financed critical power and fuel expenditure, as well as other critical expenditure classified as “state interests.”

In the 1990s, during the Economic Structural Adjustment Program (ESAP), South African retail groups Shoprite, Pick 'n Pay, and Massmart (Makro) all opened shops in what was once a foreign-exchange-rich Zimbabwe, importing mass-produced consumer goods from their own South African supplier networks. However, foreign exchange controls have since been tightened due to the economic crisis, and a number of multinationals, including a substantial number of South African corporations, have been unable to repatriate their earnings. In its 2005 annual report, Pick 'n Pay's chief executive indicated that the company had managed to repatriate the majority of its backlog dividends from its Zimbabwean associate, TM Supermarkets Limited.

In the diamond sector, South African mining houses De Beers Corporation and BHP Billiton have continued to hold exploration licenses for diamond prospecting. In a recent interview with Zimbabwe Television, the national broadcaster, President

Mugabe accused De Beers of illegally mining diamonds under the guise of prospecting orders it had been issued previously by the government (Latham, 2007).

In March 2007, reports indicated that the River Ranch Company – in which a senior ZANU-PF official, retired army general Solomon Mujuru, has a major shareholding – was being investigated by the European Commission and World Diamond Council (WDC) under the Kimberly Process¹⁸ for smuggling diamonds to world markets. The WDC has since backtracked on its earlier condemnation of River Ranch Diamond Mine, however, leading to suspicion and doubt about the authenticity of its original source of information. In December 2006, WDC chairman Eli Izhakoff wrote to the EU as chair of the Kimberly Process, alerting it to warn all diamond-importing countries to inspect parcels originating from southern Africa to make sure they did not involve Zimbabwean production processes. The WDC was reported as saying that rough diamonds from Zimbabwe's kimberlitic River Ranch Mine, near Beit Bridge, in southeastern Zimbabwe, and alluvial diamonds from Marange, in the eastern part of the country, were possibly being smuggled illegally into South Africa for official export purposes with the validation of the Kimberly Process Certification Scheme. The alert – which effectively meant blacklisting Zimbabwe's diamonds – was allegedly issued without any prior investigation to assess the true situation on the ground in Zimbabwe. River Ranch, via its legal consultant, retired judge George Smith, reportedly wrote to the WDC expressing dismay at the Council's lack of professionalism by taking as fact the allegations that the mining establishment had smuggled diamonds into South Africa. However, in a letter responding to River Ranch's complaints, Mr. Izhakoff was quoted as saying that the Council had at no time stated that the company was involved in smuggling operations. The Mugabe government also took a swipe at the WDC for taking a “political stance” against Zimbabwe by accepting the smuggling rumours without first investigating the issue and establishing the facts on the ground. Mugabe had clearly stated that all future diamond mining in the country would be

¹⁸ The Kimberly Process is one of the most innovative initiatives aimed at promoting good governance and transparency of natural resources in conflict and post-conflict states. It grew out of a May 2000 discussion that took place in Kimberley, South Africa, on the role of diamonds in fuelling state fragility and upheaval in conflict situations. The Kimberly Process is designed to certify the origins of diamonds to prevent illicit ones from entering the formal diamond trade. South African mining giant De Beers played a critical role in facilitating this process.

controlled by the state. Citing smuggling activities by the exploration companies and an illegal wave of prospecting in the Marange region, in eastern Zimbabwe, he announced that diamonds would now fall into a “special category.”

In December 2006, the government revoked the title for the Marange and Manicaland regions, held at the time by African Consolidated Resources, after news reports that thousands of miners were pouring into the region. The area was later fenced off and the title awarded to the Zimbabwe Mining Development Corporation, a state-run company. On June 1, 2007, LonZim, an arm of UK-based Lonrho Africa, announced a £50 million investment fund targeted at greenfield and brownfield investments in the country's resources sector. With Zimbabwe's relatively small economy, these few high transactions have obviously played a role in sustaining the Mugabe regime. Zimbabweans, for the large part, still consume products and services from corporations that fund national tax revenue and contribute to the larger supply chain of small and medium-sized enterprises deemed vital in helping to keep the economy from complete collapse.

Sanctions adopted by the United States and the EU have had little or no impact on the ability of the regime to maintain its hold on power and or dissuading MNCs from investing in Zimbabwe. Critics contend that these sanctions have merely deepened poverty amongst ordinary Zimbabweans while having an inconsequential effect on the regime, and they are increasingly being viewed as ineffective, given South Africa's lack of support for them. It is widely believed that a more effective approach would be to apply pressure on MNCs to discontinue their operations in the country, which are vitally important for the survival of the Mugabe regime.

4. China's Role in the Zimbabwean Economy

Today, China's Africa policy can best be understood from that country's unique political and economic perspectives. Although China enjoys considerable benefits from its economic relationship with the continent, it is too simplistic to regard that as the single driver behind its foreign policy agenda. Media outlets and Western scholars often make the case that China's relationship with Africa is built on its dependency on, and demand for, energy resources, markets, and investment opportunities for its booming industries and job-seeking workers. This explanation fails, however, to take into account China's longstanding relationship with Africa, which

dates back to the early 1950s, when bilateral trade and investment were limited to a few states – Egypt, in particular. Furthermore, the majority of African states that benefit from China's increasing trade and investment, as well as from its debt relief, are not endowed with mineral wealth and offer few investment opportunities to Chinese enterprises.

China's Africa policy should be regarded as more than a mere quest for resources; rather, one needs to take into consideration its diplomatic and strategic pursuits and global foreign policy objectives. This focus best explains China's aim to solidify its position as a global power, on par with other permanent UN Security Council members; its drive to sustain its economic and human development; and its need to ensure “reunification” with Taiwan while preventing succession drives by other minority groups, including Tibetans. In order to achieve these goals, China seeks the political and diplomatic support of other UN members, particularly in the Third World. As the biggest regional group within the UN system, Africa is a natural ally upon which Beijing has become closely dependent in order to further its political objectives.

Politically, Chinese engagement with the continent has paid dividends over the past five decades in the diplomatic battle, through its One China policy, to deny Taiwan international legitimacy in multilateral institutions. In the early days, China's intentions were primarily diplomatic – to counter recognition of Taiwan and thus to shore up votes for the eventual rejection of Taiwan's China credentials at the UN. For instance, in December 2003, China deployed 90 peacekeepers to Liberia following that country's decision to switch diplomatic recognition from Taipei to Beijing. Today, only five African states – Gambia, Malawi, Swaziland, Sao Tomé and Príncipe, and Chad – continue to maintain diplomatic relations with Taiwan.

China's other objective was to compete, not only with Western influence, but also with Russia's influence on the continent. In the most obvious instance of this rivalry, during the 1974-1979 war for independence in the then British colony of Southern Rhodesia, China backed ZANU, the liberation movement of Robert Mugabe, while the Soviet Union backed Joshua Nkomo's Zimbabwe African People's Union (ZAPU). Mugabe's ultimate election victory and his total vanquishing of ZAPU laid the foundation for the close relationship that exists between China and Zimbabwe today. In those early days, China's presence was marked by lavish infrastructural projects, often with limited economic development impact. All along the coastal

countries of west Africa, Chinese-funded Olympic-style stadiums have become the hallmark of Chinese “goodwill.”

Diplomatically, China and Zimbabwe have supported each other's initiatives in international organizations. In 2004, the two nations collaborated at the UN Commission on Human Rights to block resolutions that would have seen both of them condemned by the international community for human rights abuses. Previously, at the second meeting of the China-Africa Co-operation Forum in December 2003, China had declined to encourage political reform in Zimbabwe or its observance of human rights standards. Critics contend that the only condition Beijing has set for Harare is its adherence to the One China principle, and Zimbabwe's leaders have continued to express their support for Taiwan's reunification. Moreover, Chinese and Zimbabwean military ties are amongst the closest on the African continent. Military cooperation, particularly those that involve African dictators, has been under scrutiny over the past decade for obvious reasons. China's focus on military cooperation traditionally has been on providing basic equipment, arms sales, and training programs.

In 2004, despite an EU and US arms embargo against the Harare regime, China sold it military vehicles and fighter aircraft reportedly worth more than US\$200 million (McLaughlin, 2005). Furthermore, Zimbabwe was able to acquire military-strength radio-jamming devices, which reportedly were used to block broadcasts of anti-government reports from independent media news agencies during the parliamentary election campaign in 2005, when Mugabe's ZANU-PF party was accused by international election observers of vote rigging and harassment of opposition candidates.

In economic terms, China has played an increasingly important role in sub-Saharan Africa in recent years (see Table 2). China became one of Zimbabwe's most important investors following the exodus of Western multinationals in the mid-1990s due to the worsening political and security situation in the country, the result of the government's seizure of white-owned farms. In June 2006, China threw Zimbabwe's disintegrating economy a lifeline with energy and mining deals reportedly worth more than US\$1.3 billion. Neither country indicated how the investment would be repaid, but the deal gives Beijing access to Zimbabwe's precious mineral resources, including the world's second-largest deposits of platinum, as well as gold, chrome, silver, copper, coal, nickel, and diamonds.¹⁹ Today, Zimbabwe and South Africa are

Table 2: FDI Stock in Africa, 1990 and 2005

Region/country	1990	2005
	<i>(current US\$ millions)</i>	
Africa	49.2	1,595.3
North Africa	3.4	618.4
Algeria	0.4	171.2
Egypt	1.8	39.8
Libya	1.0	33.1
Morocco	0.2	20.6
Sudan		351.5
Tunisia		2.2
Other Africa	45.9	976.9
Angola		8.8
Botswana		18.1
Cameroon	0.5	7.9
Cape Verde		0.6
Central African Republic	1.2	2.0
Chad	0.1	2.7
Congo		13.3
Democratic Republic of Congo		25.1
Cote d'Ivoire	0.6	29.1
Equatorial Guinea		16.6
Ethiopia		29.8
Gabon	2.9	35.4
Gambia	0.5	1.2
Ghana		7.3
Guinea		44.2
Kenya	0.5	58.3
Liberia		15.9
Madagascar	1.7	49.9
Mali	0.0	13.3
Mauritania		2.4
Mauritius	6.3	26.8
Mozambique	0.1	14.7
Namibia		2.4
Niger	0.1	20.4
Nigeria	6.7	94.1
Rwanda	2.9	4.7
Senegal	0.2	2.4
Seychelles		4.2
Sierra Leone	1.1	18.4
South Africa		112.3
Togo	0.2	4.8
Uganda		5.0
Tanzania	1.7	62.0
Zambia	3.2	160.3
Zimbabwe	2.5	41.6

Source: UNCTAD, 2006

China's major sources of platinum and iron ore (Brookes and Shin, 2006). In his message to mark his eighty-third birthday on February 24, 2007, President Mugabe boasted of Zimbabwe's sizable uranium resources, and old tin mines in which

¹⁹ "Scepticism remains as China comes to the rescue." South Scan, June 16, 2006.

“Chinese investors” had recently expressed an interest. In addition the Chinese have invested in the construction of three coal-fired thermal power stations to assist the state power company, which was cutting customers' electricity for seven hours a day.²⁰ This included a deal with the China Machine-Building International Corporation to mine coal and build thermal-powered generators to reduce electricity shortages.

Zimbabwe was a keen participant in the much-vaunted China-Africa Summit of November 2006, in which some 2,000 deals were under discussion, generating much interest and debate amongst Western and African analysts about the nature of its relationship with China. Critics contend that Chinese investors increasingly are given preferential treatment over their local counterparts in Zimbabwe. During a meeting with the deputy-governor of the People's Bank of China, the governor of the Reserve Bank of Zimbabwe, Dr. Gideon Gono, was quoted as saying: “I would like to unveil to the Chinese people the vast investment opportunities that... abound in Zimbabwe, including our natural resource endowments.” Beijing already has deals in place for coal concessions in return for financing and mining equipment.²¹ In return for Harare's guarantees, China's National Aero-Technology Import and Export Corporation and China North Industries Corporation (NORINCO) agreed to finance multi-billion-dollar expansion projects by the Zimbabwe Electricity Supply Authority and Hwange Colliery Company, respectively. It is worth noting that the US government has censured NORINCO on several occasions for proliferation-related activities. In December 2003, Chinese premier Wen Jiabao stated: “China respects and supports efforts by Zimbabwe to bring about social justice through land reform” (Meldrum 2003).

Indeed, Beijing's economic support for Harare remains strong and, through its efforts, Beijing has secured the contracts to develop Zimbabwe's agricultural, mineral, and hydroelectric resources. Tobacco counts amongst Zimbabwe's top exports, and China is Zimbabwe's largest importer. China has made large investments in the country's tobacco production and processing industry. In September 2006, China announced a US\$200 million capital injection into Zimbabwe's farming, manu-

²⁰ “China and Zimbabwe sign technological cooperation agreement.” People's Daily, July 15, 2003. Available at: http://english.people.com.cn/200307/15/eng20030715_120250.shtml.

²¹ “China, Zimbabwe friendship further strengthened: Ambassador.” People's Daily Online, April 25, 2005. Available at: http://english.peopledaily.com.cn/200504/23/eng20050423_182443.html.

facturing, and mining sectors.²² China supplies Zimbabwe with expertise, technical assistance, and agricultural equipment, including tractors and agro-processing. In 2006, Chinese investors helped Zimbabwe process tobacco into cigarettes and export these as finished value-added products. Chinese investors and a local company also have joint venture in a large cement factory in Gweru.

Meanwhile, the state-owned China International Water and Electric has been contracted to farm 250,000 acres in the southern part of the country.²³ Chinese and Zimbabwean developers believe the project will yield 2.1 million tons of maize every year, requiring the building of a massive irrigation system. It remains unclear how Zimbabwe will pay for the project, although unconfirmed reports claim payment will be made in the form of tobacco, which China purchases in large quantities.²⁴ Via lines of credit at Chinese banks, China supports Zimbabwe's small and medium-sized enterprises. With this assistance, Zimbabwe's Ministry of Small and Medium Enterprises set aside US\$10 million in 2005 for disbursement to such businesses, including textile, soap, tile, and fibreglass manufacturers. Large state-owned firms, such as the Zimbabwe Iron and Steel Company, which is presently being refurbished, also receive Chinese assistance. In January 2008, Zimbabwe awarded a Chinese company a US\$9.5 million contract to repair a blast furnace.²⁵ China also fosters person-to-person contacts via "soft" economic approaches. Conferences and talk shops, like the 6th Joint Committee on China-Zimbabwe Economy and Trade, held in Beijing during September 2007, also play a role in bolstering personal ties amongst the elite and underscoring Beijing's commitment to Harare.

It seems likely that Harare will become increasingly reliant on Beijing for economic and military support as Zimbabwe's economic and political situation continues to deteriorate. Western analysts and Zimbabwean critics contend that Beijing will continue to support Harare unconditionally while piling up various claims on Zimbabwe's natural resources and other commodities. With a lack of direct competition in the local market by Western firms, Zimbabwe will remain China's exclusive resource base for as long as the incumbent government remains

²² "Zimbabwe eager to strengthen ties with China," People's Daily Online, September 28, 2006. Available at: http://english.peopledaily.com.cn/200609/28/eng20060928_307027.html.

²³ "China, Zimbabwe sign technological cooperation agreement." People's Daily, July 15, 2003.

²⁴ "Chinese demand coal guarantees," *Zimbabwe Financial Times*, May 20, 2005.

²⁵ "Zimbabwe: Zisco awards Chinese firm US\$9.5m contract," *The Herald*, January 28, 2008.

in place. The current fragile state of the country, however, also puts Beijing in an increasingly vulnerable situation, as Western condemnation of China's long-standing ties with the autocratic regime of President Mugabe comes increasingly under the spotlight. China's continued involvement in Zimbabwe, particularly in the agricultural and mining sectors, furthermore, carries significant sovereign risk, and Beijing is gambling that it will be able to manage relations so as to guarantee its claims in what will almost certainly continue to be a chaotic transition period.

5. Official Development Assistance

Zimbabwe's relationship with the international community, especially with Western countries, remains strained. Zimbabwe has not been a member of the Commonwealth since December 2003.²⁶ The majority of donors have scaled down or suspended their operations in the country. The EU, the United States, and some Commonwealth countries have introduced measures that include restrictions on travel, a halt to military assistance, and a freeze of government assets in foreign banks with regard to select senior government officials, including President Mugabe. These measures were largely designed to put pressure on the leadership in Harare to open up the political landscape for a free and fair electoral process, rather than the gross irregularities, voter intimidation, and state-sponsored violence against opposition groups, the foreign press, white farmers, and human rights organizations that have characterized elections over the past eight years.

External financial support is now mainly confined to humanitarian assistance, particularly with regard to HIV/AIDS programs, social protection, food assistance, support for orphans and vulnerable children, and the advancement of democracy and human rights. All funding from these agencies is channelled through UN agencies and nongovernmental organizations such as World Vision, Care International, and Save the Children International. There is no direct budget support to the Zimbabwe government, and Zimbabwe's voting rights in the IMF were suspended on June 6, 2003, for its lack of cooperation with regard to policy implementation and payments.

In parallel with this decline in relations with Western development partners, the

²⁶ Zimbabwe was originally suspended from the Commonwealth for 18 months over human rights abuses during the 2002 elections, which returned Mugabe to power. Subsequently, Mugabe responded by pulling Zimbabwe out of the organization.

ZANU-PF regime has strengthened political and economic relations with some nontraditional partners such as China and India. According to available statistics, official development assistance (ODA) flows declined sharply from a peak of US\$400 million in 1995 to a mere US\$133 million in 2001, as donors reacted to deteriorating governance conditions in the aftermath of the fast-track land reforms of 1999-2000 (Zimbabwe, 2004). By 2005, ODA had climbed to US\$367 million, mainly for humanitarian and governance programs (UNDP, 2007d). The United Kingdom's Department for International Development (DFID) has remained the largest bilateral donor in Zimbabwe, focusing on programs aimed at the poorest and most vulnerable segment of the population. Key areas of support include governance, health (HIV/AIDS, in particular), education, food security, humanitarian support, and orphans and vulnerable children (United Kingdom, 2008).

In addition, the international community provided US\$64.30 million to Harare's ambitious HIV/AIDS program in 2005 and US\$41.93 million in 2006 (Abt Associates, 2005). Meanwhile, the UN contributed US\$10.43 million in 2005 and US\$24.14 million in 2006, and another US\$60 million from the Global Fund Round 5. Consequently, the availability of medical care provided by government and NGOs to HIV-positive patients has increased in recent years because of Western efforts to promote access to treatment, although it still does not reach all those who are desperately in need. Voluntary Counselling and Testing programs have been expanded over the past five years and are currently administered either free of charge or for a nominal fee. One month's antiretroviral drugs, without additional tests, cost approximately US\$5 in the public sector and between US\$20 and US\$60 in the private sector.²⁷ Meanwhile, approximately 200 facilities across the country have started to provide Preventing Mother-to-Child Transmission services (USAID, 2006).

The continued flow of aid for the government's HIV/AIDS program has helped to turn the tide against this devastating disease, offering a lifeline to millions of desperate people. In 2007, the United Nations estimated the country's HIV prevalence rate to be approximately 15.6 percent, following a gradual decline from the 2001 figure of 26.5 percent. Recent evidence from the government's surveillance system shows that HIV prevalence amongst pregnant mothers, one of the most vulnerable

²⁷ Human Rights Watch interviews with medical personnel, Harare and Bulawayo, April 17 to May 2, 2006.

Table 3: Zimbabwe's National HIV Estimates, 2007

	Estimated Number	Upper and Lower Bounds
Total (adults and children)	1,320,739	1,252,299-1,384,440
Adults (ages 15-49)	1,085,671	
Women (ages 15-49)	651,402	
Children (ages 0-14)	13,938	124,235-142,059
Adult prevalence (ages 15-49) (%)	15.6	14.9-16.3

Source: UNGASS 2007; Zimbabwe, Ministry of Health and Child Welfare, 2007

groups in the country, declined to 17.7 percent in 2006 from 25.8 percent in 2004 (UNGASS, 2007). Studies by local NGOs, working with HIV-positive patients, have categorically supported these findings. In the capital of Harare, HIV prevalence amongst women attending antenatal clinics dropped from 26 percent in 2002 to 18 percent in 2006 (Zimbabwe, 2007). There was also a decline amongst men and women ages 15 to 49, particularly in the rural areas, and amongst young women ages 15 to 24 – from 29 percent in 2000 to 20 percent in 2004. (See Table 3.)

Studies show that the decline in the HIV prevalence rate in Zimbabwe is largely due to behavioural changes amongst sexually active adults (see, for example, Hallet et al., 2006). At the start of 2006, government launched the National Behaviour Change Strategy, a proactive approach to raise awareness of HIV/AIDS and promote the reduction of multiple sexual partners, the use of condoms, faithfulness, and women's rights. In July 2006, the Harare government scaled up the multisectoral response to the virus by launching the Zimbabwe National and HIV/AIDS Strategic Plan. The four-year plan builds on the lessons and recommendations of the National AIDS Policy of 1999 and the National HIV/AIDS Framework (2000-2004).

6. Recommended Areas of Focus for Economic Recovery

Private sector participation to support infrastructure

Zimbabwe faces a bitter paradox. It will have to rehabilitate its basic infrastructure, but a lack of adequate public revenue, capacity, and low investor interest due to bad credit ratings are formidable challenges. Donors are likely to provide huge amounts of aid, although absorptive issues will constitute a concern. The private sector has proven to be a partner in other post-conflict reconstruction experiences in Africa. However, attracting private sector investment for the rehabilitation of basic infra-

structure, such as water services, roads, and electricity, will be very difficult due to Zimbabwe's higher political and economic risks, lack of counterpart agents, greater investment needs, and lower payment capacity (on paper) of consumers, resulting in a load which would fall on the shoulders of an impoverished population. Since sustainable investment in infrastructure will be required to maintain growth levels, the objective during this period should be to provide interim services that could help ameliorate the hardships caused by prolonged economic decline.

The telecommunications sector remains the most attractive sector for private participation in infrastructure in any reconstruction effort in Zimbabwe. Because of its short payback and high profitability, mobile telecoms tend to appear very quickly in post-conflict settings. An improvement in the business environment, including licensing regulations, will ensure that this kind of private sector participation in infrastructure takes root quickly.

Develop a constructive partnership with China

Zimbabwe's economic profile has undergone a seismic change. The growing importance of China in the country's economy is evidenced by economic assistance and foreign investment deals in the extractive sector, in state-owned enterprises, in the security sector, and in the agricultural sector. China is now one of Zimbabwe's top export destinations, particularly with regard to tobacco, cotton, and iron ore. The key to this has been China's willingness to use barter trade to facilitate trade, and it appears as though China's motives are actually economic – namely, to satisfy its growing economic needs. A constructive engagement with China will have to be put in place, focusing on improving transparency in contracts, investment deals, and loan agreements. Efforts at a country level should be aimed at coordinating any large-scale aid packages for Zimbabwe, by harmonizing donor mechanisms within China's aid system.

Improve transparency in the activities of extractive industries and multinationals

The March 2008 *Indigenization and Economic Empowerment Act*, aimed at 51 percent ownership by locals, appears not to have deterred foreign investment in supremely lucrative sectors such as platinum, diamonds, nickel, chrome, and gold, while no capital flight has been experienced in foreign-controlled operations in the

banking and manufacturing sectors. Given that these corporations continue to invest in a country known for its poor governance record, abuses of human rights and the absence of the rule of law in respect of property rights and contract law, they are aiding and abetting the regime by providing scarce foreign exchange, by continuing to do business with government corporations, and by providing taxes that enable the regime to continue functioning. Civil society and donors should focus advocacy and monitoring efforts at increased transparency in the extractive sector, and particularly in ensuring compliance with globally acceptable standards and processes, such as the Kimberley Process, the Global Reporting Initiative, and the Extractive Industries Initiative.

7. Conclusion

To date, steady flows of foreign direct investment into Zimbabwe – particularly from China and South Africa, attracted by the country's large reserves of platinum and other precious metals on the back of high commodity prices – have helped to keep the country from complete collapse. Continued humanitarian support, in the form of official development assistance and remittances from the Diaspora, inevitably has kept the Mugabe government in power, despite its continued political isolation and economic mismanagement. However, this is certainly not sustainable in the long term. Few Zimbabweans outside the government and political elite have benefited from such investments, while remittances and aid are inadequate to address the deep-seated economic ills facing the state.

Ultimately, the country's economic recovery will depend largely on the resolution of the long drawn-out struggle to oust Mugabe by means of a negotiated power-sharing agreement. The final outcome is expected to be determined less by the electoral process in Zimbabwe than by applied pressure from African statesmen and their Western counterparts to force Mugabe to negotiate a compromise with the opposition to avoid a tale similar to what recently unfolded in Kenya, while setting the stage for long-awaited economic recovery.

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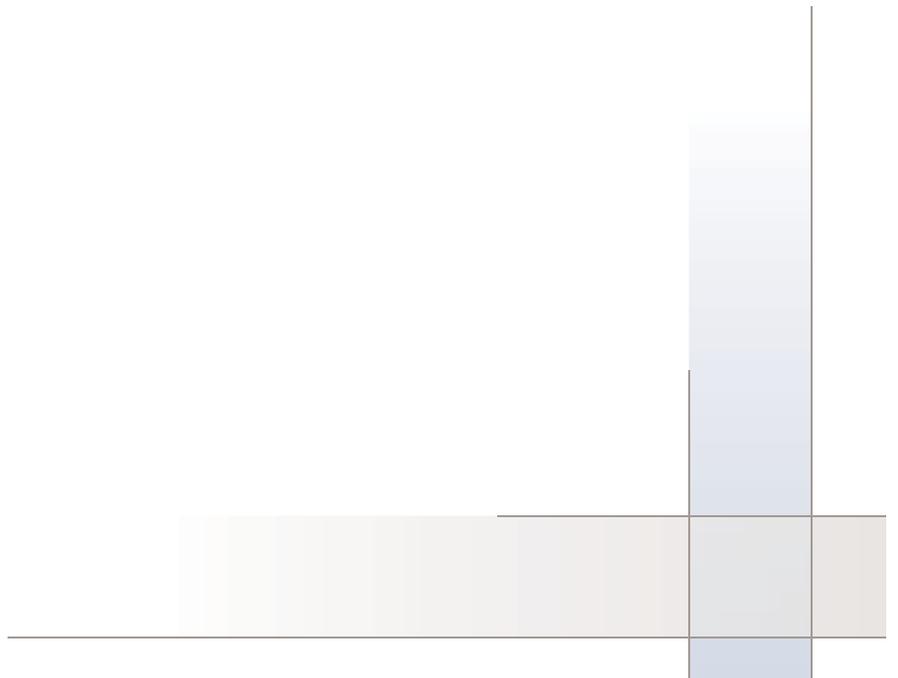
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