Zimbabwe economy in free-fall

Barry Mason, Barbara Slaughter
5 April 2001

The Zimbabwean government faces a deepening economic crisis. According to the South African *Financial Mail* of March 23, the economy is in "free-fall”.

Domestic debt is calculated to be 50 percent of GDP. Inflation is forecast to rise to 70 percent this year and the International Monetary Fund (IMF) predicts that the inflation rate will be 155 percent by the end of the year—twice the government's estimate of 70 percent—unless harsher fiscal measures are imposed.

According to the IMF the Zimbabwean dollar is overvalued by 50 percent, which is having a huge impact on exports. The tobacco industry, which accounts for about 40 percent of Zimbabwe's exports, is demanding a substantial devaluation before the annual tobacco sales, which start at the end of April.

The government's own shortage of foreign currency is so desperate that last month commercial banks were ordered to sell all their foreign currency to the central bank or the state owned national oil industry until further notice. This extreme measure is to enable the government to acquire hard currency to pay its overseas debts, including diplomatic salaries and outstanding rent on foreign missions.

Companies are obliged to pay foreign suppliers in Zimbabwean dollars, which means foreign firms are very reluctant to trade with the country. Economists have warned that the policy will have a devastating impact if implemented for any length of time. Many businesses have been forced to trade on the "parallel market" at almost double the official exchange rate in order to obtain the foreign currency they need.

David Murangari, chief executive officer of the Chamber of Mines in Zimbabwe, said that production of gold—one of the main foreign currency earners—dropped by 20 percent between 1999 and 2000. Falcon Gold Zimbabwe Limited (Falgold), one of the country's largest mining companies, has announced that last year's operating profit fell by 50 percent on the previous year. They have suspended all their mining operations because of the harsh economic conditions. Several of the country's goldmines are facing closure.

The tourist sector, which produces six percent of GDP and generates $400m a year in foreign currency, is facing collapse. Already more than 100 tour operators have closed down, with a loss of 5,000 jobs. The number of tourists visiting the country in 2000 was 75 percent less than the previous year and the situation continues to deteriorate. Australia's Quantas, Germany's Lufthansa and Austrian Airlines have withdrawn their services and thousands of Zimbabwean nationals are leaving to live abroad.

Inflation, which is around 60 percent, is devastating the lives of the Zimbabwean people. In the past 10 years real incomes have been cut by three-quarters. A United Nations Development Programme study published last year, noted that over the past decade the proportion of the population living in poverty had increased from 40 percent to 75 percent.

Zimbabwe is traditionally a net exporter of food, but there are growing fears that this year there could be a shortage of crops such as maize. Basic commodities like bread, sugar and transport are beyond the reach of growing numbers of people. Fuel supplies—petrol for transport and paraffin for heating and lighting—are practically non-existent. Workers are forced to walk several hours each day because they cannot afford the cost of transport to work. Unemployment is around 60 percent. Added to this is the terrible health disaster. One in four Zimbabweans are infected with the Aids virus.

In an attempt to stem the crisis, the Zimbabwean government is preparing to introduce a new exchange rate regime. A meeting is scheduled the weekend of April 7/8 between bankers and government and central bank officials to thrash out plans which, according to a report in the March 30 *Financial Times*, are likely to include "a mix of devaluation and new currency controls."

Government officials have said that the discussion will include devaluation of the official rate of exchange, currently 55 Zimbabwean dollars to one US dollar, and tough measures to close down the parallel market. Bankers are predicting a devaluation of between 20 and 30 percent, which will further devastate the lives of working people.

The *Financial Times* reports that both Finance Minister Simba Makoni and President Robert Mugabe are opposed to the idea, but bankers believe the government has no choice. One banker was quoted as saying the government will "have to bite the bullet next month."

The South African government is concerned about the effects of the Zimbabwean crisis on South Africa. In February the Governor of the South African Reserve Bank told foreign journalists, “There is a perception that the region is unstable, and that is because of Zimbabwe... The (international) investment community tends to over-generalise problems in Africa. But at the same time the key people that decide on investment aren't geographically illiterate. They are concerned about a contagion effect.”

They are also worried that the farm occupations in Zimbabwe could spread south. The government organised seizures of white-owned farms, carried out by the Zanu-PF War Veterans Association, were a far cry from a genuine policy of land redistribution. Rather, Mugabe cynically used the campaign to sow division between the urban and rural masses in order to divert attention from the growing opposition to his rule and bolster his political support in the countryside.

But the campaign has provoked a response in South Africa, where some poor black peasants are now calling for the repossession of white-owned farms. The South African government is fiercely opposed to the expropriation of these farms, but so far, despite urging from Western governments, President Mbeki has refused to condemn Mugabe's land policy. Mbeki is afraid that criticism of Mugabe would provoke opposition amongst sections of ANC supporters. Instead he has tried to contain the demand for land reform in South Africa with a few token gestures.

Mugabe has been in power in Zimbabwe since 1980, when black majority rule was introduced after 15 years of armed struggle. Despite his left-sounding rhetoric, Mugabe was the political representative of a narrow layer of aspiring black capitalists, who saw the independence struggle as a means of securing their own advancement against the British-backed white regime of Rhodesia.

For some time Mugabe was regarded as a friend and ally of the West and a force for stability in Africa. Whilst granting a limited amount of social reform, he ruled the country according to IMF and World Bank dictates. Capitalist property relations were maintained and key sectors of mining and agriculture left under the control of the international corporations and rich white farmers.

Over the past 10 years the IMF and World Bank have called for massive cuts in public spending and the further opening of the economy to global capital. As Zimbabwe's debt burden mounted, the IMF demanded an accelerated privatisation programme, claiming that the government could use the proceeds to service its debts to the international banks.

During the 1990s the IMF-dictated reforms and the falling price of Zimbabwe's exports on the world commodity market resulted in the virtual collapse of the economy and the impoverishment of the Zimbabwean population. Mugabe was aware of the growing unpopularity of his government and felt unable to carry out the IMF economic demands to the letter.

This provoked the hostility of the IMF and Western powers, who were also opposed to Zimbabwe's intervention in the war in the Democratic Republic of the Congo (DRC). For the past two and a half years Zimbabwean troops have been one of the main military forces propping up the regime of President Laurent Kabila. Ever since the Lusaka Agreement of August 1999, the Western powers have been pushing for a settlement to the war to facilitate their exploitation of the DRC's vast mineral resources. They view Mugabe, who took Zimbabwe into the war in the hopes of exploiting the mineral wealth in the southern area of the DRC for his own benefit, as an obstacle to a settlement. The IMF has continuously demanded the withdrawal of Zimbabwean troops, but Mugabe has refused to comply.

The Western powers concluded it was necessary to get rid of Mugabe. They cut off all funds and investment to the country and organised and financed an opposition party, which would be more responsive to their demands—the Movement for Democratic Change (MDC). In 1999 the IMF suspended all loans to the country, claiming that the government had reneged on its debts. Since then Mugabe has been condemned as a political pariah in the world's press.

In recent weeks, however, Mugabe has been able to utilise his military position in the DRC to win support from the French and Belgium governments, who are anxious to increase their influence in that country. Following the assassination of President Laurent Kabila on January 16, the country's new president, Kabila's son Joseph, has proved himself to be more amenable to demands from Western governments. He has travelled to Belgium, Britain, the US and France where he has been warmly received and offered a deal. In exchange for Kabila's support for the peace process, negotiated last December under the auspices of United Nations, the West would put pressure on Uganda and Rwanda to pull out their troops and control the rebel factions they sponsor.

President Joseph Kabila visited Zimbabwe on March 26. In his address to a special session of parliament, Kabila thanked Mugabe for his military support. He said, "Zimbabweans have all reasons to be proud of what they have accomplished in the Democratic Republic of the Congo."

The governments of France and Belgium recognise that Mugabe is a key player in the conflict in the DRC and that it is important to engage him in dialogue to find a settlement. Mugabe recently visited these countries and was delighted with his reception by government representatives, including French President Chirac, which flew in the face of the British request that the talks should not take place. Britain's *Daily Telegraph* reminded the French government that "Rather than being welcomed at the Elysee, Mr Mugabe should be treated as a pariah." But an article in France's *Le Monde* emphasised that Mugabe's role in the DRC conflict was the key to his invitation. It is not yet clear what has been offered in return for his support for a peace settlement.

The British government looks to gain influence and economic advantage in the DRC through its control of Zimbabwe. But rather than working with Mugabe, they are determined to replace him with a more compliant regime, and are continuing to work through the free-market opposition party, the MDC.

The *Guardian* newspaper on March 31, reported that British and American "well-wishers" have been secretly supplying the MDC with equipment costing millions of pounds—digital cameras, satellite phones and computers—in an attempt to win support in the rural areas, where Mugabe's Zanu-PF has its main political base. The paper reports that a "key channel for aid to the opposition is the Zimbabwe Democracy Trust in London... Its patrons include former Conservative foreign secretaries Douglas Hurd, Malcolm Rifkind and Geoffrey Howe and prominent businessmen with large investments in Zimbabwe."

In another line of attack, the British financial services group Abbey National has launched an international campaign entitled "Zimbabwe: Stop This Madness". They aim to collect a million signatures calling on President Bush to intervene in Zimbabwe. The campaign was launched on the Internet and the appeal is being sent to prominent Zimbabweans, business executives, journalists and academics.

The British government is also using the Commonwealth in an attempt to provide moral authority for its campaign to destabilise the Zimbabwean regime. A recent meeting of Commonwealth's Ministerial Action Group decided to send a mission to Zimbabwe to investigate alleged government abuses. The mission will include the foreign ministers of Barbados, Australia and Nigeria. British Foreign Secretary Robin Cook said, "It is really a very serious statement of our concern, and will be seen as that within Zimbabwe." He told the British parliament, "I hope that they will stop pretending that this is all a British conspiracy, when it was a decision taken unanimously—unanimously—by eight representatives of Commonwealth countries representing those members of the Commonwealth charged with keeping close tabs on violations of human rights. I believe that the delegation must be met. If not, that will send a strong signal to all the Commonwealth countries." Cook has also announced that the nine member British Military Advisory Training Team will be withdrawn from Zimbabwe.

Needless to say the Zimbabwean government does not accept the need for the Commonwealth visit and considers it to be foreign interference in Zimbabwean affairs. Foreign Minister Stan Mudenge said, "They have no mandate for the mission they want to send. We will not participate in illegal and unprocedural methods of operating."

It is by no means certain that the US will support Britain's campaign against Mugabe. The Bush administration appears keen for Mugabe to stay in power, rather than risk the uncertainty a forced removal could unleash. Bush has blocked a civil suit that had been brought in the US by Zimbabwean citizens, which seeks $68.5 million in compensatory and punitive damages under the US Torture Victims Protection Act of 1992. A US government spokesman explained that Mugabe should be entitled to immunity because of fear of reciprocity against US leaders, but also in recognition of the role he has played in the Congo conflict. Mugabe was served with the suit when visiting the United Nations headquarters in New York for discussion on the Congo war.

See also:
Zimbabwe: Relations between MDC opposition and Mugabe deteriorate
[13 October 2000]
Zimbabwe: Mugabe government abandons the rule of law
[26 February 1999]