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Zim urged to reform 'unstable' and 'artificial' economy

By: Alex Bell – March 29, 2013

Zimbabwe's government is being urged to make critical reforms to ensure that the rapid growth of the economy, described as artificial and unstable, is not short lived.

A new report published by the international public policy research group, the Cato Institute, has warned that Zimbabwe's economic potential is limited, because the growth seen in recent years is 'false'.

According to the report's author, Professor Craig Richardson, although the official adoption of the US dollar and South African rand in 2009 stopped rampant hyperinflation and stabilized the economy, "this doesn't explain why the country has been growing faster than Hong Kong, a territory with a stable currency and one of the freest economies in the world."

Professor Richardson explained that Zimbabwe's dollarisation was accompanied by three significant economic developments, "none of which will foster growth long-term."

"First, between 2009 and 2011, two-thirds of Zimbabwe's nominal GDP growth was the result of increases in government expenditures, augmented by hundreds of millions of dollars in International Monetary Fund grants and Chinese loans. Second, rich Western countries dramatically increased their infusions of off-budget grants to Zimbabwe, and this foreign aid now accounts for nearly 9 percent of its GDP. Third, Zimbabwe's economy is becoming increasingly dependent on the production and export of raw mineral commodities, which have experienced rapid worldwide price hikes," Professor Richardson said.

He told SW Radio Africa that none of these developments provide for a stable economic future, and the growth therefore seen in recent years is "artificial." He said the growth also draws attention away from the country's serious problems, including inadequate food supply, poor governance, weakening property rights protection, and a bloated government sector.

"Those problems have been unwittingly enabled by Western governments and the International Monetary Fund through massive cash infusions, which have given the Zimbabwean government little incentive to change," Richardson warned.

He also warned that Zimbabwe's is "exhibit A on how to ruin a national economy," saying the destructive land grab campaign from 2000 onwards was directly responsible for the country's economic collapse.

“Zimbabwe was the jewel of Africa but when property rights were destroyed during that campaign, the economy really went into a fast tailspin. The two are crucially linked,” Richardson said.

He added that property rights are a key foundation for positive, stable economic growth and warned that there is no sign that this right will be protected in Zimbabwe in the future. He expressed concern that the new constitution, instead of protecting these rights, legitimises the state seizure of land.

“Buried in the constitution are the rights of the government to take away people’s property… it’s pretty easy to see that Zimbabwe’s economic growth is very short term and very arterial. Unless the country starts paying attention to property rights I don’t see any positive growth,” Richardson said.

You can read Richardson’s report here:

http://www.cato.org/publications/policy-analysis/zimbabwe-why-one-worlds-least-free-economies-growing-so-fast