The Herald

Zim growth puzzles critics

By: Golden Sibanda – April 9, 2013

ZIMBABWE's rapid economic growth since dollarisation in 2009 has confounded Western economic analysts in trying to explain the factors behind its sustained bullish economic performance, despite it being rated poorly by global institutions.

Between 2009 and 2011, Zimbabwe's Gross Domestic Product growth has averaged an impressive 7,3 percent, making it one of the world's fastest-growing economies.

Yet World Bank governance indicators on doing business place Zimbabwe among the world's worst, and the Fraser Institute's "Economic Freedom of the World" index ranks it as one of the world's least economically free countries.

Zimbabwe's strong economic performance coincides with its January 2009 adoption of the US dollar and South African rand as its official currencies, which ended hyperinflation, stopped the decline and stabilised the economy.

"Yet dollarisation 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," said the Cato Institute, a US libertarian think tank, in its recent research report, conveniently titled "Zimbabwe, Why Is One of the World's Least-Free Economies Growing So Fast".

Zimbabwe's dollarisation was accompanied by three significant economic developments, none of which the institute believes will foster growth in the 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 disbursements from the International Monetary Fund and Chinese loans.

The institute's report claims that the second reason is that rich Western countries dramatically increased their infusions of "off-budget" grants to Zimbabwe, and this foreign funding now accounts for nearly nine percent of Zimbabwe's GDP.

"Thirdly, Zimbabwe's economy is becoming increasingly dependent on the production and export of raw mineral commodities and tobacco, which have experienced rapid worldwide price increases. Zimbabwe's recent growth rates do not accurately reflect its long-term economic prospects," said the report.

Zimbabwe's economy has been growing faster than Hong Kong's, the traditional bastion of free-market capitalism. But Zimbabwe's GDP growth between 2009 and 2011 averaged an impressive 7,3 percent, including 9,3 percent in 2011.
By comparison, Hong Kong's economy grew 5 percent in 2011.

Given its perceived stature and poor rating in the world in terms of doing business environment, Zimbabwe's rapid growth seems a puzzling reversal after nearly a decade of economic contraction.

To be fair, the country is better off than it was four years ago. Its tourism is increasing, its education and health care systems have improved, and its markets are stocked with goods," the report says.

The rapid economic growth began with its adoption of the US dollar and South African rand as the official currencies, now commonly and officially known as the multi-currency regime, in early 2009.

The change replaced Zimbabwe's hyperinflation decimated currency and swiftly quelled the rampant hyperinflation of previous years.
Farm yields have increased as well, although they are still far below 1990s agricultural output levels and are insufficient to feed the population.
Since 2000, Western rating economic and governance institutions have consistently conferred Zimbabwe with the rank of one of the world's least economically free countries, most notably the Canada-based Fraser Institute.

In 2009, Zimbabwe was dead last on Fraser Institute's list, while in 2010 it ranked 142nd out of 144 countries. The Fraser Institute states that the cornerstones of economic freedom are "personal choice, voluntary exchange, freedom to compete, and security of privately-owned property".

Among the reasons for Zimbabwe's poor ranking are alleged to be poor property rights protection, high tariffs on imports, a bloated public sector, difficulty in starting a business, and stringent hiring and firing laws.

In addition, its overall average score on three World Bank governance indicators — "control of corruption," "rule of law," and "quality of governance" - have been conveniently downgraded in recent years.

Zimbabwe's rapid growth does put it in the recent company of some other sub-Saharan African countries.
An analysis by The Economist finds that between 2001 and 2010, six of the world's 10 fastest-growing economies were in sub-Saharan Africa.
Dubbed the "Lion Kings," these countries included Angola, Chad, Ethiopia, Mozambique, Nigeria, and Rwanda.
Over that decade, their annual GDP growth averaged between 7,9 and 11,1 percent . . . but in2011 Zimbabwe outperformed all of them.

"If we accept that economic freedom, sound institutions, and secure property rights encourage economic growth, then Zimbabwe's growth looks aberrant," the Cato Institute's said in its report.