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Zimbabwe's Economic Transition

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Posted: 10/1/09

One of the most pressing issues facing the developing world is stagnant or regressive economic development due to unstable and corrupt governments. Zimbabwe, once thought to be the "bread-basket of Africa," is no different.

Zimbabwe has been under the rule of Robert Mugabe for 28 years. Mugabe was elected prime minister in 1980 and revised the nation's constitution in 1987 to make himself president. His political party ZANU-PF (Zimbabwe African National Union-Patriotic Front) won every election in Zimbabwe from 1980 until March 2008, when ZANU-PF lost the parliamentary elections to MDC (Movement for Democratic Change). Mugabe would not concede, resulting in clashes. A power-sharing deal between Mugabe and MDC's Morgan Tsvangirai was finally signed on Sept. 15, 2008. But this deal did not wipe away the economic crisis Zimbabwe faces due to severe mismanagement of funds by the central bank, and corruption on part of the ruling class.

According to the International Crisis Group, Zimbabwe's economic problems began to escalate in the 1990s when Mugabe's government began to take farms owned by white Zimbabweans and give them to ZANU-PF war veterans.

Zimbabwe began to see country-wide shortages of food and other basic commodities. Already in the midst of crippling unemployment and an 80 percent inflation rate, Zimbabwe had nowhere to go but down with Mugabe's increased corruption and inadvertent isolationism.

Investors fled Zimbabwe because of the unstable environment, causing increased capital flight and escalating hyperinflation. This and many other contributing factors have led to Zimbabwe's present state. In fact, the Zimbabwean dollar could no longer be used for transactions of any kind as of January 2009.

The Cato Institute calculated that Zimbabwe's highest monthly inflation rate was 79.6 billion percent, its highest daily inflation rate was 98 percent, and that it only took 24.7 hours for prices to double in Zimbabwe. By Feb. 2008, US\$1 was equal to Z\$7.1 million. By last November, Zimbabwean officials had stopped trying to calculate the inflation rate.

To this very day, Mugabe is not willing to take responsibility for his actions. According to BBC, in his address to the U.N. last week, Mugabe accused the West of "using filthy, clandestine divisive antics to undermine Zimbabwe's power-sharing government."

He also called for sanctions on Zimbabwe to be lifted because they were "ruining the lives of our children." There are several incorrect assumptions in Mugabe's accusations. First and foremost, it is debatable how much "power-sharing" is actually taking place between Mugabe and Tsvangirai.

In late March, when the power-sharing details were worked out, it was clear that Mugabe's party would retain control of key ministries, including the Ministry of Finance. One question that still remains is, how can sweeping economic change take place if Mugabe and his party retain control and maintain relatively the same policies that led to Zimbabwe's economic crisis?

Lastly, according to BBC, the sanctions that Western countries have placed on Zimbabwe largely affect Mugabe's and his closest allies' ability to travel and access their assets abroad. Because they are targeted sanctions, they do not directly affect the people of Zimbabwe. The only part of the sanctions that may have affected the people of Zimbabwe was the removal of funding by the IMF (International Monetary Fund), the World Bank, and other international creditors. But this was done because both public and private international creditors feared that Mugabe and his allies would squander the funds. Zimbabwe maintains it will need some $10 billion to rebuild the country.

Recently, investors have begun to take interest in Zimbabwe again. Richard Mbaiwa, head of the

Zimbabwe Investment Authority, told Reuters, "Since February we've seen a significant increase in the level of investment inquiries and project approval."

Emmanuel Munyukwi, chief executive of the Zimbabwe stock exchange, said that the investor interest is mostly in mining, but Zimbabwe does not have the technology and capital required to make that jump from interest to concrete investment. In his eyes, "There is a ray of hope, but it's all contingent upon the politicians sorting out their problems. If the politicians move fast, business can move very, very quickly." He also stressed the need for Western countries such as the U.S. and Britain to resume developmental aid to Zimbabwe in order for a turn-around to take place.

But Western countries and both private and public aid organization are treading carefully in regards to Zimbabwe. According to Reuters, they are waiting to see more political reform before they resume large-scale development aid.

Recently, both the IMF and the World Bank restored some funding to Zimbabwe because the economy in Zimbabwe seems to be stabilizing. The IMF is giving Zimbabwe $400 million to boost its foreign currency reserves. An additional $100 million will be kept in a special account until Zimbabwe's government can clear $1B in debts, according to BBC.

Because of Zimbabwe's wealth in natural resources, there is a good chance its economy can be turned around. When investors and potential developmental organizations feel that it is safe to invest their capital in Zimbabwe and its people, Zimbabwe may see some change. But first, political issues will have to be resolved between ZANU-PF and MDC, and the government has to break down some barriers to entry (in the economy), that have kept investors away.

At this point, it is unnecessary for Mugabe to start laying blame on anyone else for the state of Zimbabwe's economy. Instead, he should focus on creating a relationship with MDC that is both beneficial for the people of Zimbabwe and conducive to free enterprise. He should focus on repairing Zimbabwe and leave the theorizing of the causes of Zimbabwe's demise to the social scientists.
