

Crisis of Zimbabwe

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ABSTRACT: Zimbabwe's economy has faced significant challenges over the years, resulting in a decline in various sectors and a collapse in the country's currency. This article provides an overview of the historical context of Zimbabwe's economy, highlighting the economic trajectory during the period of Southern Rhodesia and the subsequent challenges faced during President Robert Mugabe's tenure. It examines the causes of the economic collapse, including land reforms, economic mismanagement, hyperinflation, and the impact of external factors such as sanctions. The consequences of the economic crisis are explored, including high unemployment, food insecurity, water and power shortages, and a strained healthcare system. The political causes, including Mugabe's rule and his decision to support military interventions, are also discussed. The article delves into the implementation of dollarisation as a solution and its benefits and challenges for Zimbabwe's economy. It concludes by discussing recent developments, including the reintroduction of a new currency and the persisting high inflation rates, highlighting the ongoing economic challenges faced by the nation.

KEYWORDS: Mugabe, land reforms, corruption, dollarisation



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INTRODUCTION

Zimbabwe, a majestic nation nestled in the heart of southern Africa, graced by the Zambezi and Limpopo Rivers, finds itself embraced by the borders of South Africa, Botswana, Zambia, and Mozambique. Harare, the vibrant capital and largest city, serves as the beacon of this landlocked gem. With a population of approximately 16 million, Zimbabwe holds the classification of a middle-income country, yet its human development index (HDI) remains low while income disparity runs high.

During the tenure of Zimbabwean ZANU-PF President Robert Mugabe, a bold Economic Structural Adjustment Programme (ESAP) was initiated, yielding grave consequences for the nation's economy. In the spirit of anti-colonialism, the government implemented land reforms with the aim of displacing white landowners and placing their properties into the hands of black farmers. However, the lack of agricultural experience or training among many of the new farmers led to the unfortunate decline and neglect of numerous farms, while others were distributed among Mugabe's loyalists.

The years spanning from 1999 to 2009 witnessed a sharp decline in food production and all other sectors. The banking system crumbled, rendering farmers incapable of acquiring loans for vital capital development. Food output plummeted by 45%, and manufacturing output followed suit. Unemployment soared to a staggering 80%, leaving a bleak mark on the nation's social fabric. Moreover, life expectancy experienced a distressing decline, while an exodus of white citizens drained the nation of its valuable resources.

Hyperinflation emerged as the central affliction, casting a dark shadow over Zimbabwe's struggle for stability. It experienced almost a decade-long inflation crisis. From 1998 to 2009, the inflation rate of the Zimbabwean dollar rose rapidly, peaking at 79,600,000,000% per month in mid-November of 2008. Hyperinflation of the Zimbabwean dollar during this time was caused by economic mismanagement, including direct efforts by the government to conceal the true value of the currency.

In summary, the land reforms, coupled with economic mismanagement, led to a decline in food production, a collapse in bank lending, increased money printing, rising government debt, inflation, shortages of goods, and ineffective price controls. These factors collectively exacerbated the economic challenges faced by Zimbabwe during that period.

HISTORICAL CONTEXT OF ZIMBABWE'S ECONOMY

Economically speaking, Southern Rhodesia underwent a developmental trajectory characterized by a narrow reliance on the production of a select number of primary commodities, most notably chrome and tobacco. As a consequence, the region found itself susceptible to the fluctuations of the economic cycle. Following the deep recession of the 1930s, a period of post-war prosperity ensued, fostering the immigration of approximately 200,000 individuals of European descent between 1945 and 1970, thereby augmenting the white population to 307,000. Among this influx, a considerable portion hailed from working-class backgrounds in Britain, while others arrived from the Belgian Congo, Kenya, Tanzania, and later Angola and Mozambique. Their collective efforts led to the establishment of a comparatively well-balanced economy, effectively transforming what was once an agrarian society heavily reliant on subsistence farming into an industrial behemoth that engendered a robust manufacturing sector, flourishing iron and steel industries, and modernised mining ventures. It is important to note that these economic accomplishments were largely independent of external financial assistance.

The government of Southern Rhodesia actively propagated a comprehensive array of novel economic policies, including the implementation of a minimum wage and significant restrictions on employers' ability to terminate employees. During the period spanning from 1979 to 1990, expenditure on education nearly tripled, ascending from Z\$227.6 million to Z\$628.0 million, while government spending on healthcare experienced a similar trajectory, surging from Z\$66.4 million to Z\$188.6 million. Expenditure on public-sector employment witnessed a 60% increase, and civil service expenditure grew by 12% annually throughout the 1980s. Central government expenditure tripled, raising its proportion of the gross domestic product (GDP) from 32.5% in 1979 to 44.6% in 1989. It is worth mentioning that interest rates were artificially capped.

The ramifications of these developments during this period were rather nuanced. On the one hand, economic inequality within the populace diminished, and access to education and healthcare became more widespread. Between the 1980s and 1990s, GDP per capita experienced an 11.5% increase. However, it is crucial to acknowledge that during the same timeframe, the United States witnessed a 38% growth in GDP per capita. Consequently, the relative poverty of Southern Rhodesia escalated in comparison to the United States. There were various factors contributing to the country's modest to mediocre economic performance. While protectionist policies preserved existing high-cost companies, they simultaneously deterred exports by elevating input costs for exporters, resulting in a severe dearth of foreign exchange necessary for the acquisition of imported technology. Foreign companies were prohibited from remitting dividends, and the inflow of new foreign investments was actively discouraged.

The implementation of an austerity plan in Zimbabwe exacerbated the severity of economic challenges. This entailed a

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contraction in growth, employment, wages, and expenditure on social services. Inflation remained unabated, and the deficit consistently exceeded its target. Furthermore, many industrial firms, particularly those engaged in textiles and footwear, shuttered their operations due to heightened competition and exorbitant real interest rates. Consequently, the incidence of poverty within the country escalated during this period. On a positive note, capital formation increased, as did the percentage of exports relative to GDP, while urban-rural disparities diminished.

In 1998, President Mugabe's involvement in the civil war in the Democratic Republic of the Congo (Kinshasa), ostensibly to safeguard his personal investments, resulted in the suspension of international economic aid to Zimbabwe. This cessation of financial support, coupled with the substantial expenditure incurred from intervening in the war, further weakened an already beleaguered Zimbabwean economy.

CAUSES

The economic collapse of Zimbabwe can be attributed to the despotic rule of one of the most oppressive leaders in the region, heading an exceptionally corrupt regime. This situation has been exacerbated by a disastrous land distribution program that has devastated food production, the widespread impact of HIV/AIDS within the region, Mugabe's involvement in the Second Congo War, the imposition of sanctions by the United States and the European Union to curtail Mugabe's regime, and the regime's desperate attempts to address these issues through excessive money printing.

Over the past 35 years, the country has essentially been under the rule of a single individual who employs all means necessary to maintain power. Zimbabwe is ranked among the top 20 most corrupt nations globally, with Mugabe resorting to extensive money printing in order to ensure his own survival.

In the latter part of the 1990s, the Zimbabwean government implemented a series of land reforms with the aim of redistributing land ownership from white farmers to black farmers. However, the newly appointed farmers, lacking adequate experience, faced significant challenges in agricultural production, resulting in a substantial decline in food output. This decline in agricultural and manufacturing output triggered an overall economic downturn, leading to a collapse in bank lending. Furthermore, the government acquired and, starting in 2002, seized numerous large farms to establish resettlement areas. These lands were meant to be settled by landless peasant farmers or war veterans. However, politically connected individuals without sufficient farming experience often claimed these properties, leading to a decline in productivity. Drought conditions further exacerbated the decline in the agricultural sector.

Despite mining accounting for less than 10 percent of the GDP and employing around 5 percent of the labor force, it plays a significant role in the economy as a major generator of foreign exchange. Direct exports of minerals contribute approximately one-third of the total earnings from exports.

The economic turmoil experienced during the 1990s and 2000s had adverse effects on the country's trade balance, resulting in slowed growth or a negative balance in certain years. In response to perceived political and human rights violations, various countries and organisations, including the United States and the European Union, imposed travel and trade restrictions on Zimbabwe in the early 21st century. These actions primarily targeted senior-level members of Mugabe's administration and their families, rather than the general population or the broader economy.

Humanitarian assistance was not affected. However, the government asserted that these sanctions contributed to the country's economic problems.

To address the growing economic crisis, the government resorted to increasing the rate of money printing and expanding the money supply. Initially, this involved printing money to finance military interventions and raise salaries for government officials and soldiers. However, as the economic situation worsened, money printing became a short-term measure to appease individuals dependent on government wages.

In later years, aid and loans to the country were withheld in protest of the land reform program and violations of human and political rights, as well as in response to Zimbabwe's inability to repay previous loans. Economic mismanagement, rampant inflation, and soaring unemployment rates further complicated the worsening economic situation.

As the economy continued to deteriorate, government debt escalated. To finance the mounting debt, the government resorted to printing more money, which only served to exacerbate inflation. Inflation eroded the value of bonds, making it challenging to sell future debt.

The decline in output also led to shortages of goods, driving prices upwards. Despite an increase in nominal demand due to the circulation of more paper money, the combination of scarce goods and an influx of money resulted in rapid price increases. In times of scarcity, prices tend to rise. Additionally, the implementation of price controls on essential goods, aimed at maintaining affordability and curbing inflation, worsened the situation. However, as the cost of production rose at a faster pace.

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POLITICAL CAUSES

The life of Robert Mugabe, the authoritarian ruler who held sway over Zimbabwe for nearly four decades, has come to a close, leaving behind a legacy of economic ruin that reached its nadir in 2008. When Mugabe assumed the role of prime minister in 1980, he inherited a thriving economy. Despite enduring United Nations sanctions and the ravages of war, Zimbabwe boasted robust infrastructure, a stable currency, a thriving manufacturing sector, and productive agriculture. During that time, Mwalimu Julius Nyerere, the revered founding father of Tanzania, advised Mugabe to cherish the precious gift he had been entrusted with.

However, the turn of the millennium witnessed Mugabe's ill-fated decision to support the invasion of white-owned farms for redistribution to landless black citizens, leading to a precipitous decline in agricultural output. Once hailed as the "breadbasket" of Africa, Zimbabwe now finds itself reliant on food imports to feed its population, with the troubled nation appealing for food aid to stave off widespread hunger.

The industrial sector of Zimbabwe has been decimated, operating at a mere 50 percent of its capacity, while the country's trade balance has plunged into negative territory due to a sharp decline in exports. Two pivotal decisions made by Mugabe in the late 1990s set Zimbabwe on the path to economic catastrophe. In October 1997, under pressure from veterans of Zimbabwe's liberation war, Mugabe authorized unplanned, one-time pension distributions of 50,000 Zimbabwean dollars to all eligible veterans, along with additional monthly pensions of 2,000 Zimbabwean dollars. At that time, one Zimbabwean dollar was equivalent to \$11.6. This decision incurred severe market repercussions, with the Zimbabwe dollar plummeting by 72 percent against the US dollar in November 1997, initiating the country's eventual economic collapse. On August 2, 1998, Mugabe approved the deployment of Zimbabwean troops to the Democratic Republic of the Congo (DRC) to support the regime of the late Congolese leader Laurent Kabila against a rebel incursion backed by Uganda and Rwanda. Although Mugabe portrayed the invasions as protests against the unfair distribution of land and forbade the forceful eviction of invaders, the country descended into chaos. This turmoil led to food and commodity shortages, plummeting exports, and skyrocketing inflation. By November 2008, Zimbabwe experienced an astronomical peak month-on-month inflation estimated at 79.6 billion percent and a year-on-year inflation of 89.7 sextillion percent.

After 37 years in power, Mugabe was ousted in November 2017 through a military coup. His former vice president, Emmerson Mnangagwa, succeeded him and pledged to depart from Mugabe's authoritarian rule and economic mismanagement, heralding a "new Zimbabwe" that is "open for business." However, despite Mnangagwa's lofty reform rhetoric, his administration's incremental measures have failed to deliver genuine political and economic reforms. Repression has escalated, and the economy continues to decline. With the old guard and military still firmly in control, both benefiting from their positions atop a highly cartelised and patronage-driven economy, the promised transformation remains elusive.

As Mugabe's reign concluded, Mnangagwa declared, "The voice of the people is the voice of God." However, the current state of affairs in Zimbabwe suggests that the vision of a new and flourishing democracy remains distant and uncertain.

CONSEQUENCES OF THE ECONOMIC CRISIS

In a nation grappling with an alarming unemployment rate estimated at 90 percent, Chakwara, a university graduate in political science and public administration, finds himself compelled to accept a humbling job as a seller of onions in the bustling fruit and vegetable market on the outskirts of Zimbabwe's capital, Harare. The country is currently mired in an acute economic crisis, with its currency, the Zimbabwean dollar, having virtually collapsed, trading at a staggering ratio of 1:90 against the US dollar. Inflation is rampant, the manufacturing sector is in decline, exports are dwindling, and foreign currency reserves are severely depleted.

The dire economic situation is further compounded by a confluence of factors, including drought and the destructive impacts of cyclone-induced floods, which have plunged Zimbabwe into its most severe food crisis in the past two decades. Food insecurity has escalated significantly, with the World Food Programme (WFP) estimating that over five million people in the country are in need of assistance.

Eddie Rowe, the head of WFP in Zimbabwe, emphasises that while food insecurity was previously predominantly confined to rural areas, it has now permeated urban areas as well.

For children, the repercussions of this crisis extend beyond physical well-being. Mercy Mpata, spokesperson for the Association for Rural Teachers of Zimbabwe, highlights that the demands imposed by the crisis have diverted attention away from education. Many children are compelled to engage in work outside of school hours to contribute to their families' struggle for sustenance. Some children may even forego schooling altogether in order to earn income, while those who do attend classes often suffer from reduced energy and concentration.

Water and power shortages have further compounded the daily hardships and hindered productivity. Recently, over 2 million residents of Harare and surrounding areas were deprived of access to tap water due to the shutdown of a water treatment plant. The lack of funds to procure water treatment chemicals was the underlying cause of this shutdown.

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Additionally, power outages prevent residents from pumping water, exacerbating the crisis. As a consequence, Zimbabweans have resorted to relying on bottled water or wells, with some enduring long hours of waiting in the middle of the night to procure water.

The impact of these challenges is felt acutely in the healthcare sector as well. Powercuts have compelled hospitals to cancel surgical appointments for patients. Dr.

Peter Magombeyi, a physician at Harare Central Hospital, laments the shortage of basic medical supplies such as gloves, bandages, test tubes, and even Paracetamol. Due to the soaring inflation eroding the value of their wages, state doctors initiated a strike in September, and more than 200 of them have recently been dismissed, leading to patients being turned away from hospitals. Amidst this crisis, the population faces heightened health risks, including malnutrition and water-borne diseases. The absence of adequate medical care exacerbates these health issues, amplifying the harm they inflict.

DOLLARISATION

Dollarisation involves the official adoption of a foreign currency as legal tender or as the basis of a currency board. There are three types of dollarisation: unofficial, official partial, and official full dollarisation. In

A solution effectively adopted by Zimbabwe was to adopt some foreign currency as official. To facilitate commerce, it is less important which currency is adopted than that the government standardise on a single currency. The US dollar, the euro, and the South African rand were candidates; the US dollar had the most credibility and was the most widely traded within Zimbabwe. In 2009, the government abandoned printing Zimbabwean dollars entirely. This implicitly solved the chronic problem of lack of confidence in the Zimbabwean dollar.

Since adopting a multi-currency system in 2009, Zimbabwe has relied on a combination of foreign currencies, with the US dollar being the most widely used. In 2014, the Reserve Bank of Zimbabwe introduced "convertible" coins denominated in US cents, ranging from US\$0.01 to US\$0.50. These coins, known as Zimbabwean bond coins, were introduced to address the shortage of small change in the country.

The lack of smaller denominations, such as coins, created difficulties for retailers in providing exact change, leading to rounding up prices to the nearest dollar. The

Introduction of bond coins aimed to alleviate this issue and extend the usability of the US dollar as a de facto currency within Zimbabwe. The Reserve Bank of Zimbabwe repeatedly emphasised that it had no intention of reintroducing a national currency at that time.

By using the US dollar and issuing bond coins, the Zimbabwean government aimed to maintain stability and facilitate day-to-day transactions in the absence of a national currency. This combination of foreign currencies and bond coins served as a practical solution to address the currency challenges faced by the country.

Dollarisation brought several benefits to Zimbabwe, including the reduction of inflation, elimination of inflationary expectations, and the establishment of price stability. Prior to the adoption of the multi-currency system, Zimbabwe experienced hyperinflation, with annual inflation reaching a staggering 231,000,000% in 2008. Since 2009, the country has maintained a single-digit inflation rate, with expectations that it would remain low or even negative.

However, dollarisation also presented challenges for the economy. The adoption of foreign currencies resulted in stunted economic growth, de-industrialisation, liquidity constraints, and limited control over monetary policy. With dollarisation, Zimbabwe lost the ability to devalue its currency to make exports more competitive, and decisions regarding monetary policy were no longer made within the country but by the foreign country whose currency was adopted.

Unemployment in Zimbabwe is estimated to be around 10 to 11%. After dollarisation, the informal sector experienced growth as indigenous people opened small and medium-sized enterprises (SMEs) that could trade in US dollars.

However, it is important to note that the growth in the informal sector cannot be solely attributed to the multi-currency system.

According to a study, 88% of respondents believed that the multi-currency system restored economic stability. Importers and retailers reported improved sales, with easier access to US dollars facilitating trade. However, intermittent deposits and withdrawals were observed in the banking sector, and the reliance on the US dollar and foreign monetary policy decisions limited foreign investments in the country.

In May 2016, the liquidity of the US dollar in Zimbabwe had significantly decreased. To address this issue, John Mangudya, the governor of the Reserve Bank of Zimbabwe, announced the introduction of a new bond note. The bond note was intended to have the same value as the US dollar, with the aim of alleviating the liquidity challenges in the country.

In June 2015, the Reserve Bank of Zimbabwe announced its plan to "demonetise" the Zimbabwean dollar, essentially rendering it worthless. The goal was to complete the transition to the exclusive use of the US dollar by the end of September 2015.

Regarding the statement made by the Zimbabwean Minister of Finance, Patrick Chinamasa, in December 2015, about

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making the Chinese yuan the country's mainreserve currency and legal tender, it was denied by the Reserve Bank of Zimbabwe in January 2016. Therefore, the US dollar remained the dominant currency in circulation.

By June 2016, Zimbabwe had a total of nine currencies as legal tender, including the US dollar and the South African rand. However, the majority of transactions, approximately 90%, were conducted in US dollars, while a smaller portion, around 5%, involved the South African rand. The reliance on the US dollar in daily transactions reflected its widespread acceptance and stability compared to other currencies in circulation at the time.

In recent years, Zimbabwe has faced significant inflationary pressures. In 2019, it was estimated that inflation reached 500%. According to Trading Economics, the annual inflation rate in Zimbabwe was 540% in February 2020, and it further rose to 676% in March 2020. The economic outlook was bleak due to factors such as a drought in 2019 and the impact of the COVID-19 pandemic.

In 2019, Zimbabwe reintroduced a new currency called the Real Time Gross Settlement (RTGS) dollar and outlawed the use of foreign currencies, including the US dollar. However, the inflation rate in the new Zimbabwean currency remained high. The country experienced another period of high inflation in 2022, with the rate jumping to 131.7% in May from 96.4% in April. Since the start of the Russia- Ukraine conflict, the inflation rate surged from 66% to over 130% in May 2022, and by June 2022, it further increased to 191%.

The persisting high inflation rates indicate the ongoing economic challenges faced by Zimbabwe, including fiscal imbalances, limited foreign exchange reserves, and structural issues in the economy. The use of the US dollar on the black market reflects the continued preference for a more stable and reliable currency among the population.

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