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South African Foreign Policy MONITOR

The Zimbabwe Election: Lessons to be learnt

What lessons does the Zimbabwean crisis hold for South African foreign policy-making?

South African foreign policy failed to prevent an escalation of the Zimbabwe crisis over an 18-month period. Pretoria also did not work productively with international and regional partners in dealing with the deteriorating situation, nor was the government able to successfully distance SA from the collapse of the rule of law in Zimbabwe. With this in mind, the following lessons stand out:

• *You don't require hindsight* to realise that Pretoria's policy of quiet diplomacy was failing. This was consistently pointed out to SA's leadership, advice it chose to ignore.

• *Pretoria had alternatives* contrary to its claim that the alternative to its constructive engagement with Harare was 'loud diplomacy' or 'throwing stones'. Leverage did exist, not least in the form of economic ties and personal financial interests in SA of leading ZANU political figures. Knowledge by Harare of a stock-take of these assets could have created leverage. Diplomatic leverage cannot be created by admitting you have none, as Mbeki did publicly regularly.

• *It was politics all along, not the economy.* SA has preferred to view the situation in terms of the land issue, focusing on the economic symptoms rather than the political roots of the crisis. Following the election, President Mbeki offered to assist the Zimbabwean government with land redistribution and with the stabilisation of the economy. This alone will not resolve a crisis at the root of which is Mugabe's desperation to hang on to power.

• *Failure of Pretoria's foreign policy formulation process.* The inputs made by foreign service professionals were apparently ignored in developing Pretoria's response. SA policy towards Zimbabwe has been a presidential issue, where the foreign minister and ministry were largely absent. The views of business and the unions were, when viewing the results, also largely ignored despite publicised engagement on the subject.

• *The race card* was adroitly introduced by Mugabe, an approach which unfortunately found a strong resonance in Pretoria and among some NGO analysts. This was echoed in their support for quiet diplomacy with its emphasis on non-criticism of a fellow African leader. It not only clouded the debate, it actively inhibited a proper discussion about the real issues at stake. It wholly underestimated Mugabe's desire to remain in power at any cost, and was apparently predicated on the naïve belief that the presence of election monitors would ensure that the election could proceed in an objective, apolitical manner.

• *International co-ordination failed,* with a multiplicity of diplomatic efforts (including from the UN, US, UK, Nigeria, SADC, Commonwealth) more cross-cutting than complementary.

• *Multilateralism delivered little*, highlighting divisions rather than devising and implementing solutions. It became a serious credibility test for the Commonwealth. Without Zimbabwe's temporary suspension, many – especially those in the North – would have dismissed the organisation as having lost the moral edge that gave it both purpose and a unique role. It is unclear, however, whether this suspension is sufficient to deflect Mugabe from his course.

• *A key lesson for NEPAD* emerged in the extent to which the international community is prepared to accept African governance standards or trust African solutions. The need for African leadership to be seen to deliver solutions and take an independent line is central to the NEPAD and to President Mbeki's foreign policy approach, but the reliability of this leadership has now been undermined in Western capitals.

• *Leadership has its limits* in delivering political change and promoting convergence to acceptable governance standards in the Southern African region. This also has implications for the methods to be adopted in best inculcating governance norms and improving practices, and the role of civil society in this process.

It also raises questions about how Pretoria should best engage with civil society and in many instances with the political opposition in other African states. It entails a decisive shift from the self-carved comfort zone, which characterises foreign engagement with African government elites to a more pro-active, long-term process which is focused on the consolidation of democracy and ensuring that it is African society at large that benefits from the democratic process.

For the moment, Pretoria appears to be highly supportive of a government of national unity in Zimbabwe thereby indirectly admitting that the election process was flawed. This approach is a low-cost, short-term solution to the crisis as it is directed at curtailing the collateral political and economic

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Zimbabwe's Economic Quandary

Mugabe's 'Land is the economy and the economy is the land' policy is held as an antidote for all of Zimbabwe's economic problems. The reality is that far more is needed to resurrect the crippling economy and prevent further contagion to the rest of SADC.

The degeneration of the Zimbabwean economy started in the second half of the 1990s, and has accelerated significantly since 1999, reaching a record contraction of 7.5% in 2001. The result of this trend is that after 22 years of Zanu-PF rule, Zimbabweans are as poor as they were in the early 1970s, with 70% of the population living below the breadline. Sadly, this trend will continue in 2002, with a forecasted decline in economic growth of 5%.

The main cause for this poor growth performance is government policy and resultant political instability. Promising economic reforms initiated in 1991 were not sustained. They were steadily replaced by populist macro-economic policies and increased direct government intervention.

Indeed, the current concern is the sustainability of this type of regime. How long before a complete economic meltdown occurs? Judging by a rating of the Economist Intelligence Unit (EIU), Zimbabwe was viewed as the riskiest investment destination in the world in 2001. It had a country risk score of 82 out of 100, whereas its neighbours, South Africa and Botswana, scored 47 and 25 respectively. (Note box on p age 3.)

Trade and industry is taking serious strain in the current economic climate with severe repercussions for output and social welfare.

Social impact

The land redistribution policy of Zanu-PF has led to major disruptions in the production of grains, resulting in large-scale reductions in output and related food insecurity. The World Food Programme warns that 500,000 Zimbabweans face serious food shortages which could lead to starvation within weeks and that grain supplies are only sufficient for another two months. Further-more, failures to secure adequate supplies of raw maize threaten not only national welfare but also a substantial proportion of the country's livestock industry as it is also used as stock feed.

Due to close inter-sectoral linkages, the instability in agriculture has also spread speedily to other sectors in the Zimbabwean economy. For example, manufacturing absorbs about 60% of agriculture's output and 26% of mining's output. It is therefore not surprising that the disruption of production in agriculture, has contributed to the deterioration in industrial capacity, which is currently below 1970 levels.

Some 400 companies in Zimbabwe's manufacturing sector closed in 2000, with a related loss of more than 10 000 jobs. The motor industry has been the hardest hit with 171 closures, the steel sector with 92, and the clothing and textile sector with 45. This is primarily due to a sharp decline in domestic sales, increased overheads and limited capacity utilisation arising from unpredictable raw material outsourcing. In addition, Zimbabwe's Chamber of Mines estimated in mid-2001 that 90% of the country's gold mines are at risk from the foreign currency crisis.

Overall, an estimated 300,000 of the 1.3 million industrial and farm workers have lost their jobs since the start of 2000. This is expected to increase rapidly given the year-on-year decline of 54% in agricultural output in 2001.

These trends in the economy have also led to a negative growth rate for exports. Total exports have fallen by about 17% from 1999 to 2000 (latest figures for 2001 are not yet available). A long-term cost of this trend is that foreign competitors' products in world markets could displace Zimbabwean exports. This implies that, if and when the economic situation normalises, exporters have to regain their market share. For example, Brazil the world's largest exporter of tobacco has already announced its intention to increase production to replace Zimbabwe's shortfall in output, which was about 40 - 50% in 2001. The real tragedy, in this instance is that the tobacco industry is Zimbabwe's single largest employer of skilled and semi-skilled labour.

Ironically, Zimbabwe's inability to deliver could be a window of opportunity for South African exporters to gain additional market share in traditional Zimbabwean export products such as cotton, tobacco, manufactures and horticultural products.

Implications for the region

Costs to the region include loss of industrial output (Zimbabwe is SADC's second largest industrial base), reduced bilateral trade and investment, currency volatility, and large-scale migration to neighbouring countries.

The American Chamber of Commerce in South Africa estimated in mid-2001 that the economies of SADC had lost over US$ 36bn in potential investment because of the political crisis in Zimbabwe. South Africa, the region's largest economy has lost US$ 3bn in potential investment. Given the country's domestic socio-economic challenges theimplications of such a loss are self-evident.

Besides factors concerning political stability, the EIU rating also reveals the risk of severely distorted key economic fundamentals. These include:

- **Spiralling public debt coupled with an unsustainable debt service burden.** The public debt-to- GDP ratio is estimated to be around 60%. Arrears in foreign debt amounted to US$682.3 million in 2001. It is estimated that if Zimbabwe, which has already been barred from access to IMF funds, continues its current trend of growth in arrears, then by 2003 total debt stock will increase by US$ 1.5bn, thereby adding to the current debt stock of US$ 5bn. Main causes for this fiscal shortfall are substantial increases in military spending, unbudgeted increases in government wages(60-90%), dwindling foreign finance, and a shrinking tax base due to declining per capita incomes.

- **Triple digit inflation, which will not lose steam until food shortages are addressed.** Current inflation is estimated at about 118%, but could decrease to 52.6% in 2003 if core inflation (changes in the price of foodstuffs) subsides. Other inflationary pressures include: (i) the printing of money to as to service debt and finance government expenditure (this can be done with relative ease since the Zimbabwean Reserve Bank does not have policy independence to pursue price stability or any other policy objective). As a result money supply is growing at over 100% per year; and (ii) supply bottlenecks due to fuel shortages.

- **Pressure on the balance of payments.** In recent months the balance of payments has come under severe pressure, which can possibly trigger a currency crisis. This is primarily due to large-scale investor flight, declining terms of trade resulting from lower commodity prices for exports, and a weak export performance. The foreign reserve situation also looks precarious, since current reserves are barely enough to cover two months of imports (three months are the international norm).

- **An exceedingly misaligned exchange rate.** The Zimbabwean exchange rate, although fixed at Zim$55 t o the US dollar, is traded in the black market for at least five times that rate. This not only gives way to black market trading (and thus also distortion of domestic prices), it also impacts negatively on inflation, export competitiveness, and results in foreign exchange hoarding since the expectations are that the exchange rate will literally only go downhill from its current position. Estimates are that the Zimbabwean dollar will be trading at Z$302 to the US dollar in 2003.

- **Economic decline accompanied by financial instability.** The share of non-performing loans in the total portfolio of commercial banks in Zimbabwe rose to 21% in 2000, primarily because the economic environment has led to a general deterioration in the solvency and liquidity of borrowers. Furthermore, the current real negative interest rates, introduced to save on interest charges on government debt, discourage any form of saving or investment. Compounding matters is the fact that international banks, European banks in particular, can no longer confirm lines of credit for the Zimbabwean government. This worsens the domestic liquidity crunch on the private sector since the government will increasingly be compelled to take up larger amounts of domestic credit.

Besides losses associated with investor flight, South Africa also bears the brunt of Zimbabwe's inability to pay for its fuel and electricity. Zimbabwe has, on several occasions, defaulted on its debt payments to both Eskom and Sasol. Both companies have had to absorb the losses as they allegedly have been instructed by the South African government to continue their exports.

Furthermore, South Africa has already prepared a military base near its northern border as a refugee camp in case of a total economic meltdown in Zimbabwe. Zimbabwean immigration officials estimate that more than 2,500 Zimbabweans illegally cross the border daily.

Economic losses to South Africa are bound to increase substantially in coming months as the Zimbabwean government continues with its position that land redistribution will solve all its economic problems. The Commonwealth troika's decision to suspend Zimbabwe's membership has nevertheless improved international sentiment about South Africa.

The current situation in Zimbabwe demands an all-encompassing strategy, which addresses the underlying causes of Zimbabwe's economic chaos. Naturally, any type of strategy will require assistance from the international community and public-private sector co-operation. This will be difficult, however, in the current climate of political and social tension.

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damage expected to flow from the compromised election. It does not factor in the political cost to the MDC or the insidious erosion of political and civil liberties that it entails. It is time for Pretoria to engage with the real issue in Zimbabwe — security from the arbitrary rule of the state.

• *A fuller analysis of the pros and cons of the Government National Unity in Zimbabwe is obtainable from SAIIA at 219elsid@cosmos.wits.ac.za.*

South African/Zimbabwe: Country investment ratings 2001

Criteria	*South Africa*	*Zimbabwe*	*Criteria*	*South Africa*	*Zimbabwe*
Political Stability			***Markets***		
Opposition	2	1	Size	2	1
Elections	2	0	Spending power	2	1
Military spending	1	0	Sophistication	2	2
Perception	2	0	Imports	3	0
Dialogue	2	0	Exports	2	0
Legal stability	3	0			
Macro-economic policy			***Labour***		
Monetary policy	3	0	Costs	2	3
Inflation	3	0	Productivity	2	2
Interest rate	3	0	Skills	2	1
Deficit	2	0	Skills costs	2	0
Debt	2	1	Training systems	1	2
Fiscal planning	3	0	Permits	1	0
Exchange rate	1	0	Health	1	0
Exchange controls	2	0	Relations	2	1
Forex	2	0			
Privatisation			***Infrastructure***		
Commitment	0	0	Transport access	3	3
Framework	1	1	Transport quality	2	1
Regulatory capacity	2	2	Transport costs	2	0
Assets	1	1	Transport losses	2	2
Phasing	0	0	Electricity quality	3	2
Transparency	1	1	Electricity costs	3	1
Pace	0	0	Telecoms quality	2	3
			Telecoms costs	2	1
			Property access	3	0
			Property costs	2	3

Ratings: 0 - Extremely poor; 1 - Poor; 2 - Fair or improving; 3 - Good

Source: *Regional Investor Survey 2001: Opportunities in waiting,* BusinessMap Report, 2001

Calendar

March-May 2002

9-15 March	OAU Council of Ministers	Addis Ababa
12-15 March	State Visit by the Italian President	South Africa
18-21 March	ACP-EU Joint Parliamentary Assembly	Cape Town
18-22 March	UN International Conference on Financing for Development	Monterrey
18-22 March	Kimberley Process Plenary Meeting	Ottawa
18-27 March	World Telecommunication Development Conference	Istanbul
18 March-26 April	Fifty-Eighth Session of the UN Commission on Human Rights	Geneva
2 April-10 May	UN Disarmament Commission Conference	New York
2-16 May	31st Ordinary Session of the African Commission on Human & Peoples Rights	South Africa
12 May	Commonwealth Health Ministers Meeting	Geneva
13-17 May	Nuclear Suppliers Group Plenary	Prague
13 May-28 June	Conference on Disarmament	Geneva
25 May	Lesotho elections	
27-31 May	Second Intersessional Meeting, Mine Ban Convention	Geneva