

AFRICA RISK CONSULTING

Country briefing – Zimbabwe

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Summary

Zimbabweans head to polls on 31 July, with Morgan Tsvangirai's Movement for Democratic Change (MDC) pulling into a narrow lead. Results should be known on 1 or 2 August. A victory for Robert Mugabe's Zimbabwean African National Union- Patriotic Front (Zanu-PF) would be detrimental to Zimbabwe's economic growth and investment climate. Companies should take a long- term perspective, waiting until 2014 for a clearer picture of Zimbabwe's political and economic future to emerge.

Zimbabweans head to polls...

Zimbabweans head to the polls on Wednesday 31 July, which – for the economy – is a make-or-break election. If President **Robert Mugabe's Zimbabwe African National Union- Patriotic Front (Zanu-PF)** wins a remotely free and fair election that regional and western governments recognise, it would throw Zimbabwe onto a slower, lower growth path and will undo much of the constructive work that the coalition government has achieved since dollarization in 2009.

As the campaign gets close to the wire, the 89-year old Mugabe's rhetoric has become extreme. At a rally in **Gweru** on 26 July, he threatened to “behead” or “castrate” gays¹. At the launch of the Zanu-PF election manifesto in **Harare** on 6 July, the president threatened to bring back the Zimbabwe dollar that collapsed in a hyperinflationary heap in 2008². On a third occasion he accused his rival, the prime minister, **Morgan Tsvangirai**, leader of the progressive **Movement for Democratic Change (MDC)** of planning “to bring back the whites”³. A rational observer's view of Mugabe, in power since 1980, would indicate that his time has passed: he has left the country with a 65% national poverty headcount (76% in rural areas – allegedly Mugabe's heartland)⁴. Only 15% of the population has a

¹ Eye Witness News, 26 July 2013

² Standard, 15 July 2013

³ Mail and Guardian, 13 July 2013

⁴ Source, economist, Harare

formal sector job. Excluding agriculture, there are 250, 000 fewer people employed today than at the end of the 1990s.

On any free and fair count Mugabe should lose and Zimbabwe should embark on a sustained recovery. The Mugabe-led Zanu-PF goes to the polls without much policy. It has only one political card up its sleeve – one that it has already tried to play without success but the rhetoric of which has popular support. This is the so-called indigenization policy under which ‘Zimbabweans’ take 51% of shares in foreign owned companies. Mugabe’s indigenization minister – **Saviour Kasukuwere**, a loose cannon and hardliner with a background in the **Central Intelligence Organization (CIO)**, boasted in December 2012 that he had “acquired” \$4 billion of mining assets from **South Africa’s Impala Platinum, Anglo American and Rio Tinto**⁵. This is untrue – not a single share has changed hands. Notwithstanding, Kasukuwere has presented this as a policy success. In the world of Zanu-PF propaganda politics however, thousands, perhaps millions, of voters may believe him.

Those who vote for Mugabe on 31 July will be voting for a vacuum. Zanu-PF is also without any real leadership. The president, who has been in poor health for several years, has said privately that he will leave office after the poll. Should he win, no-one expects him to remain president for more than six to nine months. If Mugabe steps down, Zanu-PF is likely to continue its furious internal battle over leadership. For over a decade Zanu-PF has been unable to agree on a successor. In the event it would most likely be deputy president **Joice Mujuru**, or her arch-rival, defence minister, **Emmerson Mnangagwa**. A third candidate from a compromise camp remains a possibility.

A Zanu-PF victory would plunge the country into years of suboptimal economic policies, undermining prospects for would-be foreign investors. The fragile agreement of a Staff Monitored Programme with the **International Monetary Fund (IMF)** that is currently in place would not survive. Zanu-PF’s deep hostility to the Fund would jeopardize relations: the party refuses to accept the need for a debt-restructuring agreement with Zimbabwe’s creditors. Debt relief is essential for sustained recovery.

Were Tsvangirai’s MDC to win, the economic outlook would be brighter. His party has some detailed policies acceptable to foreign lenders, donors and investors. The MDC would in all likelihood strengthen relations with the IMF and move the economy forward. However, Tsvangirai is a weak, indecisive and intellectually naïve leader and there is a risk that he will surround himself with courtiers who will tell him what he wants to hear rather than those with the competence and knowledge to know in what direction to take the economy.

⁵ Bloomberg, 12 December 2012

If there is a large turnout on 31 July and if the vote rigging – already apparent according to numerous reports – is contained, Tsvangirai should win. The question then will be the military's response. Will the army, which has already said it will not recognise an MDC victory, go quietly? A senior officer who works in Mugabe's office has claimed that the military would take its lead from the party. However, local sources insist that it is the military that directs Zanu-PF rather than the other way around.

There are three reasons to expect the military to accept a Tsvangirai victory, however reluctantly. First, many of the army's rank and file will vote MDC. Secondly as a body, it is unlikely to follow senior officers into a military coup option. Thirdly, however feeble, the **Southern African Development Community** leadership, will not accept a military successor to Mugabe. Consequently, the military will focus on rigging the vote, intimidating the voters and hoping that the numbers favour Mugabe.

There are three main presidential candidates - Mugabe, Tsvangirai and **Welshman Ncube** who leads the breakaway wing of the MDC in **Matabeleland**. Ncube is unlikely to garner much of the national vote which suggests that either Mugabe or Tsvangirai will get an absolute majority, averting the need for a second round run-off scheduled on 11 September. Electoral geography favours Tsvangirai. He is expected to win in the towns and cities, as well as in Matabeleland in the West, **Masvingo** in the South, and **Manicaland** in the East. Mugabe's heartland is **Mashonaland Central** where there are more voters than in any other single province and his hope is that Zanu-PF will rack up sufficiently large majorities in this region to offset deficits in most other parts of the country.

Unlike elections in 2008 when widespread electoral fraud meant it took weeks to declare the result, the picture should be clear on 1 or 2 August. This time the vote count will be posted outside each polling station and the parties will actively tally the numbers quickly to pre-empt any vote count fraud.

It's the economy.....

Given the parlous state of the global economy and the severe binding constraints on the Zimbabwe economy – there can be no quick fix whoever wins the election. Several factors militate against a speedy recovery: the debt overhang, dollarization which makes the country uncompetitive, the \$30 billion infrastructure deficit (especially electricity) and an unsustainable fiscal stance where 60% of the national budget is spent on the public service. Moreover, a Zanu-PF win is likely to provoke an immediate economic crisis. A foreign journalist quotes an unnamed businessman saying, *“there won't be any cash left in any of the banks 24 hours later if Zanu-PF wins the elections. Zimbabwe won't survive another stint of Robert Mugabe”*⁶.

⁶ Telegraph, 28 July 2013

The table below summarises Zimbabwe's recent economic history, taking four reference points from independence (1980), the pre-crisis peak (1998), the post-crisis low point (2008) and the latest numbers (2012/13)⁷

According to a local commentator

*"The [economic] track record speaks for itself. It is not just a reflection of the failure of government and government policy in Zimbabwe. It is just as grave an indictment of the donor and lending agencies, especially the **World Bank** whose Zimbabwe track record is abysmal. Indeed, the sole group to emerge from this episode with any credibility whatsoever is the private sector whose decision-making has been much clearer and hard-headed than that of donors and World Bank officials⁸.*

| | 1980 | 1998 | 2008 | 2012/13 |
|------------------------------------|---------------|---------------|---------------|----------------|
| GDP PER HEAD (US\$ 2000) | 500 | 567 | 280 | 370 |
| Employment – excluding Agriculture | 750 000 | 1 050 000 | n.a. | 790 000 |
| Population | 7.6 million | 12.2 million | 12.5 million | 13.2 million |
| Poverty Headcount | n.a. | 41% | n.a. | 65% |
| Human Development Index | 0.366 | 0.370 | 0.340 | 0.375 |
| Industrial Output Index | 100 | 148 | 50 | 56 |
| Exports | \$1 7 billion | \$1.9 billion | \$1.7 billion | \$4.3 billion |
| FDI | \$2 million | \$80 million | \$52 million | \$350 million |
| External Debt | \$786 million | \$5.5 billion | \$6.3 billion | \$12.4 billion |

Under Zanu-PF, the economy would creep along with a growth rate of 4% a year or less, unemployment and poverty will continue to grow and the socio-political climate will become

⁷ Sources: **World Bank**, IMF, **Zimbabwe National Statistics Agency**, UNDP

⁸ Zimbabwe academic and commentator

increasingly fragile⁹. The brain drain would accelerate and Zimbabwe will lapse into an economic torpor - still waiting for change. A Zanu-PF victory will entrench Zimbabwe as a client state of “friendly” powers – **Iran, Cuba** some **Latin American** countries and possibly **China**. Domestic prejudice against Western firms and Western investors will harden. During the election campaign the president referred to 1,200 foreign firms that have already been identified for takeover¹⁰.

Local sources say that this is almost certainly untrue, but that it is symptomatic of attitudes within Zanu-PF. The takeovers being promised at the hustings are not going to happen, but the message, the intent and motivation are clear. Western business is not wanted. Those who invest do so at their own risk in the knowledge that when it comes to bidding for contracts and orders the odds will always favour those who are prepared to bend the rules.

Under an MDC government, given its policies and the fact that donors will want to support it, economic prospects would be far better. Local economists expect that growth of around 6% annually is possible, even in a sluggish global economy¹¹.

Implications

Business, especially businesses built in the ‘Western’ model – **South African, US, UK and European** businesses – are best advised to wait for the dust to settle. This means taking a 2014-onwards perspective. It means looking at the hard numbers. It means waiting for ministers to act rather than just promising to act and it means viewing the rose-tinted scenarios of the emerging market analysts’ community with skepticism. There will be a recovery, but it will take time to gather momentum.

Whether the recovery is sustained is another question. Zimbabwe has had several short spurts of rapid growth, but in 2013 income per head is lower than it was 53 years ago in 1960. This time, the challenge will be to sustain growth, rather than just kick-starting it. Modern history reminds us that Zimbabwe is a country with a history of false dawns each of which has promised economic riches, namely

- the **Federation of Rhodesia and Nyasaland** in 1953
- **Ian Smith’s Unilateral Declaration of Independence (UDI)** in 1965
- Independence in 1980
- the **Economic Structural Adjustment Programme** in 1991
- Mugabe’s Land Reform programme in 2000
- inclusive government - the MDC-Zanu-PF coalition of 2009.

⁹ Source, economist, Harare

¹⁰ ibid

¹¹ ibid



We cannot know whether 2013 will be different, particularly if Mugabe wins but a Tsvangirai victory might give the country the first real chance to reform that it has had since the early 1960s.