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The ruling Zimbabwe African National Union-Patriotic Front (Zanu-PF) makes no changes to its leadership structure at its party conference in Victoria Falls. President Robert Mugabe (1980-present) attempts to quell tensions as different factions angle to succeed him, and the conference ends without any formal resolutions. Chinese leader Xi Jinping (2012-present) signs several deals with the Zimbabwe government during a visit to the country. Finance minister Patrick Chinamasa presents a \$4 billion 2016 budget as he projects improvements in economic growth. The budget reflects the government's inability to implement lasting solutions to the economic crisis and make critical reforms, especially changes in the currency regime.

Zanu-PF holds a non-elective conference as Mugabe reins in factions

The ruling **Zimbabwe African National Union Patriotic Front (Zanu-PF)** party held its **15th Annual Conference** in the **Victoria Falls** resort from 10-11 December amid escalating tensions emanating from the unresolved succession issue. In a speech ahead of the conference, President **Robert Mugabe** (1980-present) expressed fears that Zanu-PF is at risk of splitting due to its protracted factional and succession wars.¹ Tensions have escalated since the 2014 congress when the party expelled former vice president **Joice Mujuru** and other veteran party officials.² The annual conference's theme – "*Consolidating People's Power through Zim-Asset*" – suggests the party's acceptance of the country's acute economic woes and the need to find a political resolution to the crisis.³ However, the conference ended without any binding resolutions, despite cabinet ministers giving presentations on enhancing economic performance, tackling corruption and reinvigorating the economic blue-print, **Zimbabwe Agenda for Sustainable Socio-Economic Transformation (Zim-Asset)**.⁴ Zanu-PF also chose Mugabe, now aged 91, to stand as the presidential party candidate in the 2018 elections.⁵ Nevertheless, final resolutions have always been announced on the closing day of the party's conferences, and analysts view the recent departure from tradition as noteworthy.

*"The lack of concluding resolutions at the recent Zanu-PF conference clearly indicates that the party is not in a good state. As some insiders have said... there were fierce disagreements on a number of issues, so much so that the party officials could not solicit any sound resolutions from their own speeches. Any resolutions would have reflected the underlying factional battles to succeed Mugabe."*⁶

Disagreements also emanated from the vigorous campaign of the **G40** faction, reportedly aligned to **Grace Mugabe**, which reportedly tabled a resolution for the party to return to the old constitution which provides that one of the vice president's seats is reserved for a female candidate. Through this move, the G40 allegedly plans to exclude vice president **Emmerson Mnangagwa** from the race to

¹ Daily News Live, 11 Dec 2015.

² Daily News Live, 11 Dec 2015.

³ Press Release, ZANU-PF official website.

⁴ The Herald, 15 Dec 2015.

⁵ NewZimbabwe, 06 Dec 2015.

⁶ Source, analyst, Zimbabwe

succeed Mugabe.⁷ In retaliation, the Mnangagwa camp proposed a return to the women's quota system in the presidium on the condition that a former **Zimbabwe African Peoples Union (ZAPU)** female cadre takes the position. This is in the spirit of the **Unity Accord** signed between the two former liberation movements in 1987, since a former **Zimbabwe African National Union (ZANU)** candidate, **Joice Mujuru**, held the post for the past ten years.⁸ This targeted vice president **Phelekezela Mphoko**, whose position as second vice president fulfills the ZAPU quota.⁹ Mugabe reprimanded both factions, and avoided allowing any of the opposing resolutions to pass.¹⁰ In his closing speech, Mugabe stated that the party would not make any changes to its leadership, since it made changes during last year's conference, and that the next elective conference will be in 2019.¹¹ He also rebuked members of the military, police and intelligence services whom he accused of involvement in factional politics.¹² This implied that the succession race has become a matter of national security by drawing in the state's key security organs, which are supposed to be apolitical and non-partisan.¹³

The division within Zanu-PF on the succession issue has led to a split over economic policy and ties to international lenders. The old guard, including Mnangagwa, reportedly prefers better relations with the **International Money Fund (IMF)** to rebuild the economy.¹⁴ Young leaders, particularly those aligned to the G40, see better ties with the West as a threat to their chances of wealth accumulation as this might lead to the softening of the indigenisation legislation which requires the sale of assets to local investors. Current legislation requires foreign-owned companies to shed 51% equity to local investors. The IMF revoked Zimbabwe's voting rights in 2003 because of arrears on payments, and restored them in 2010, with a prohibition on borrowing.¹⁵ The treasury under finance and economic development minister **Patrick Chinamasa** is now planning to clear arrears of \$110m to the IMF, \$1.15 billion to the **World Bank** and \$601m to the **African Development Bank** by April 2016.¹⁶ Youth development, indigenisation and economic empowerment minister **Patrick Zhuwao**, who is allegedly aligned to the G40 faction, openly criticised Chinamasa's move to attract foreign direct investment in the country.¹⁷ In an apparent victory for the Young Turks, Mugabe reasserted his support for the indigenisation laws in his concluding remarks at the party's conference, stating that foreign companies will be forced to comply.¹⁸

*"Mugabe's backing of the controversial indigenisation policy threatens the relationship-reconstruction efforts that Chinamasa is working so hard for. The G40 will take this as a victory against their foes in the ruling party. It seems Mugabe did not want to leave his wife and her backers completely bruised after they failed to force through leadership change at the conference. They will use the president's statement as a weapon to against any resistance to the implementation of the legislation going forward and in the same vein, continue to project the policy inconsistency which has blighted the country for some time now."*¹⁹

China's Xi Jinping visits Zimbabwe, signs economic cooperation agreements

Chinese president Xi Jinping (2012-present) visited Zimbabwe for a two-day state visit on 1 December en route to **South Africa**, where he co-chaired the sixth **Forum on China-Africa Co-**

⁷ The Zimbabwe Mail, 13 Dec 2015.

⁸ Voice of America/Zimbabwe, 15 Dec 2015.

⁹ The Standard, 13 Dec 2015.

¹⁰ The Standard, 13 Dec 2015.

¹¹ The Standard, 13 Dec 2015.

¹² The Zimbabwe Mail, 15 Dec 2015.

¹³ NewZimbabwe, 14 Dec 2015.

¹⁴ Bloomberg News, 25 Nov 2015.

¹⁵ Bloomberg News, 25 Nov 2015.

¹⁶ Bloomberg News, 25 Nov 2015.

¹⁷ Bloomberg News, 25 Nov 2015.

¹⁸ SABC News, 13 Dec 2015.

¹⁹ Source, analyst, Zimbabwe

operation (Focac) conference from 4-5 December. Xi and his delegation received a rousing welcome in **Harare**, demonstrating warm relations between China and Zimbabwe.²⁰ Chinese and Zimbabwean officials had held a business dialogue forum before Xi's arrival, on 29 November.²¹ China's **National Development Reform** commissioner, **Cao Wenlian**, explained that China is exploring a new financing model to effectively assist companies in Zimbabwe.²² The main model that China uses entails providing credit with the recipient country repaying the loan in the form of locally produced goods including natural resources.²³ China and Zimbabwe reportedly signed 12 landmark agreements, which state media described as a major boost for the implementation of its Zim-Asset programme.²⁴ Although some of the deals do not include figures, the agreements will provide project funding in Zimbabwe's key economic sectors. Some of the projects prioritised include fibre internet roll-out, power generation, construction of a pharmaceuticals warehouse and the construction of a new parliament building.²⁵ Some of the main deals are as follows:

- **China Export Bank – Hwange Power Station:** A loan of around \$1.2 billion for the refurbishment and expansion of the **Hwange Power Station**, in the west of the country.²⁶ China-based **Sinohydro** will conduct the upgrades that will expand the power plant to 7 and 8 units, adding an additional 600 MW to the national grid.²⁷
- **ZTE Corporation – Zimbabwe Power Company (ZPC):** China-based **ZTE Corporation** entered into Zimbabwe's first national solar project with the national power utility ZPC and **Intratrek Zimbabwe** for the construction of a 100 MW **Gwanda** power plant in a deal worth \$146m.²⁸ The Chinese company intends to consolidate its presence in the Zimbabwean solar energy market. ZTE has a solar manufacturing plant in the **Democratic Republic of the Congo** but is largely invested in the telecommunications supplies sector in Zimbabwe. The Gwanda solar power plant project is expected to be complete in 18 months and to contribute to ZPC's efforts to resolve Zimbabwe's energy deficit.²⁹
- Another China-based company, **Yunnan Linkun Investment Group**, reportedly acquired a 50% shareholding in **China-Africa Sunlight Energy** and plans to invest an initial \$700m towards the development of the **Gwayi Coal-Electricity Integrated Project** in **Matabeleland North Province**.³⁰ This follows the termination of a joint venture between the initial partners **Shandong Taishan Sunlight Investment Company Limited** and **Old Stone Investments**, the local shareholders.³¹ The joint venture was terminated after Shandong failed to mobilise the required funding for the project.³²
- The **China Exim Bank** reportedly signed a deal with Zimbabwean telecommunications company, **TelOne** for a fibre optic internet roll-out in Zimbabwe estimated to be worth \$98m.³³

Chinese commerce minister **Gao Hucheng** signed several other deals, including:

- a deal on aviation cooperation with the Zimbabwean transport and infrastructure development ministry;

²⁰ NewsDay, 1 Dec 2015.

²¹ NewsDay, 1 Dec 2015.

²² NewsDay, 1 Dec 2015.

²³ NewsDay, 1 Dec 2015.

²⁴ The Herald 2 Dec 2015.

²⁵ The Herald, 3 Dec 2015

²⁶ Eyewitness News, 2 Dec 2015.

²⁷ Fin24, 2 Dec 2015.

²⁸ The Herald, 1 Dec 2015.

²⁹ The Herald, 1 Dec 2015.

³⁰ The Herald, 3 Dec 2015.

³¹ New Zimbabwe, 3 Dec 2015.

³² New Zimbabwe, 3 Dec 2015.

³³ New Zimbabwe., 1 Dec 2015.

- a deal for the construction of a pharmaceutical warehouse with the health ministry;
- a hand-over and acceptance certificate with the environment ministry for the donation of equipment to wildlife protection in Zimbabwe; and
- an agreement on the exchange of notes for the construction of a new parliament building.³⁴

Mugabe praised China for its support, indicating that Zimbabwe's engagement with China has partly helped to offset the effects of sanctions imposed on his government by the West.³⁵ From 2002, the **European Union (EU)** and the **United States (US)** imposed targeted sanctions on the Zimbabwean government on the basis of alleged electoral fraud and human rights abuses. Some of the restrictions have since been removed but both President Mugabe and Grace Mugabe are still subject to travel bans from both the EU and the US. Zimbabwe has looked to China for investment and lines of credit.

The China deals are contentious. **David Coltart**, former education minister and official of the opposition **Movement for Democratic Change**, criticised the deals, noting that they would not benefit unemployed Zimbabweans.³⁶ Former finance minister **Tendai Biti** said that Chinese investment in Zimbabwe was akin to a second colonisation, since in many cases it has sought to tie their credit line to some form of compensation with natural resources – what Biti described as the “*mortgaging of the country's mineral resources*”.³⁷

Chinamasa promises to unlock foreign direct investment in 2016 budget

Finance minister Patrick Chinamasa presented the 2016 budget to parliament on 26 November entitled “*Building a Conducive Environment that Attracts Foreign Direct Investment*”.³⁸ He valued the budget at \$4 billion, with \$3.85 billion funded from revenue collection, while the government will finance a projected deficit of \$150m through borrowing from the domestic market.³⁹ Chinamasa also projected that the economy would grow by 2.7% in 2016 as he predicted improved performance in the agriculture, mining and manufacturing sectors, while the remaining economic sectors are projected to see weaker growth compared to this year. He indicated that agriculture would recover through strategies to manage the prevailing drought conditions.⁴⁰

The economy is facing multiple challenges of deflation, liquidity flows and de-industrialisation. Debt overhang is another major challenge, as Zimbabwe is currently failing to secure fresh capital from international financial institutions.⁴¹ The economy has failed to grow in the 2015 fiscal year in the face of these challenges. Policy inconsistency is an additional concern for potential investors. The following table presents the sectoral GDP predictions for 2016 as indicated in the minister's budget statement:

³⁴ The Herald, 3 Dec 2015.

³⁵ News24, 2 Dec 2015.

³⁶ NewZimbabwe, 3 Dec 2015.

³⁷ NewZimbabwe, 3 Dec 2015.

³⁸ National Budget Statement, 26 Nov 2015.

³⁹ Zimbabwe Independent, 27 Nov 2015

⁴⁰ National Budget Statement, 26 Nov 2015.

⁴¹ Newsday, 26 Nov 2015.

Real GDP Growth (%) ⁴²	2012	2013	2014	2015	2016
	Act.	Act.	Est.	Est.	Proj.
Agriculture, hunting and fishing	7.8	-2.6	23	-3.6	1.8
Mining and quarrying	8	11.7	-3.4	-2.5	1.6
Manufacturing	5.3	-0.6	-5.1	1.6	2.1
Electricity and water	0.3	5	5.4	-10.8	3.6
Construction	23.5	3.9	6.9	7	4.5
Finance and insurance	28	11.3	7.7	6	5
Real estate	59	0.7	4.7	3.9	2.5
Distribution, hotels and restaurants	4.3	3.9	2.5	4.7	4
Transport and communication	6.7	7	1.1	4.2	2.8
Public administration	19.1	3.4	6.3	1.5	1.3
Education	38.1	2.9	3.9	2.1	1.3
Health	7.7	0.5	1.8	2.1	2.1
Domestic services	-3.5	6	2.2	2	1.8
Other services	-10.7	-4.7	-3.3	3	2.5
Less Imputed bank service charges	9.8	11.3	4.7	3.7	5
GDP at market prices	10.6	4.5	3.8	1.5	2.7

The government expects export revenues to increase by almost 9% to \$3.7 billion next year on the back of an “*expected improved performance*” in the sale of minerals, tobacco and horticultural produce.⁴³ The import bill is projected to decline marginally to \$6.3 billion, “*attributed to the measures that were put in place to manage the unfair playing field imposed by some cheap foreign products.*”⁴⁴ The budget speech also referred to the country’s deflation and the weak South African rand as some of the challenges affecting the economy.

Analysts criticised the accuracy of the economic information in the budget. Biti described it as “*fictitious*”, suggesting that there is very little chance for the economy to grow at the projected rate as Zimbabwe needs agriculture and energy as key sectors to function well in addition to stabilising the industrial sector and reduce unemployment.⁴⁵

“One should read the minister’s 2016 budget with great concern. The budget is much smaller than those of Zimbabwe’s neighbours, and this shows the impact of economic decline in a country that used to be a powerhouse in the region. With no currency of its own, Zimbabwe no longer has monetary sovereignty and that’s why the weakening South African rand is weighing negatively on the economy...Unfortunately, Chinamasa himself is not able to come up with a “Holy Grail” of sorts for the economy. The current economic problems stem from entrenched, protracted harmful domestic political conditions that a finance minister alone cannot solve. This budget is thus a mere formality as far as economic changes are concerned.”⁴⁶

⁴² National Budget Statement, 26 Nov 2015.

⁴³ National Budget Statement, 26 Nov 2015.

⁴⁴ National Budget Statement, 26 Nov 2015.

⁴⁵ NewZimbabwe, 3 Dec 2015.

⁴⁶ Source, analyst, Harare

Zimbabwe remains uncompetitive in attracting investments because of its indigenisation laws and the high cost of doing business in comparison to its neighbours due to its dollar economy. The budget failed to address these crucial issues, especially company ownership laws, the protection of property rights and private investments, and currency reform. This results in contradictions between the main theme (attracting FDI) and the contents of the statement itself.

Implications

Zanu-PF's annual conference failed to effect leadership changes or make resolutions regarding the country's economic and political future. Analysts had predicted Mugabe would step down but the party endorsed him as its candidate in the 2018 elections, despite his age and increasing frailty. Its failure to make resolutions stems from its factional politics, in which the first lady, Grace Mugabe, is heavily involved and angling to build a political base to support her political ambitions. The conference confirmed the party's unwillingness to implement lasting reforms both to its leadership structure and the general economy, since it is the party in office and there is no separation between party and government in Zimbabwe.

The Chinese president's visit resulted in several deals that will possibly support Zimbabwe's economic regeneration efforts. However, Chinese investments in Zimbabwe and elsewhere typically bring Chinese companies into the country, usually with Chinese labour, thus minimising chances of making a sustainable impact on the country's economy. Zimbabwe also stands to mortgage its natural resources to China, since it cannot repay loans in cash. This will potentially have harmful long-term effects, in the event of post-Mugabe policy changes.

The 2016 budget is small by regional standards, and reflects the government's policy failure and contradictions. The country remains an unattractive investment destination, and without the injection of fresh capital, the economy will continue declining. The government remains unwilling to conduct currency reforms, especially ending its use of the US dollar that makes it costly to conduct business in the country.

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