A Difficult Dialogue:

Zimbabwe-South Africa economic relations Since 2000

Crowds mob South African-owned Makro and Jaggers and strip shelves bare in Harare during "Operation Slash Prices" in July 2007

A preliminary report

SOLIDARITY PEACE TRUST

23 October 2007

The Solidarity Peace Trust

The Solidarity Peace Trust is a non-governmental organisation, registered in South Africa. The Trustees of the Solidarity Peace Trust are church leaders of Southern Africa, who are all committed to human rights, freedom and democracy in their region.

- Archbishop Pius A Ncube, Catholic Archbishop of Bulawayo, Zimbabwe, is chairperson
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The objectives of the Trust are:

To assist individuals, organisations, churches and affiliated organisations in southern Africa, to build solidarity in the pursuit of justice, peace and social equality and equity in Zimbabwe. It shall be the special concern of the Trust to assist victims of human rights abuses in their efforts to correct and end their situation of oppression.

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"…our well considered advice to legislators and Government in general is that a fine balance should be struck between the objectives of indigenization and the need to attract foreign investment necessary to grow our economy…. We must avoid schemes that create perceptions of 'grab, take and run' and instead go into value for money, win-win type acquisitions…"

[Gideon Gono, RBZ Governor, on the Indigenisation Bill, 1 Oct 07]

"We will have to seize the companies, and the services *idzodzo*, whether transport or any other service being rendered by a company or organization."

[President Robert Mugabe, on the Indigenisation Bill, 1 Oct 07]

Some South African companies are even using the crisis, or are planning to use the crisis, to take over large swathes of the Zimbabwean economy. They are not alone in attempting to do so. British, French and Chinese companies are attempting to do exactly the same thing. Time will tell which countries' capital will benefit the most out of this macabre race. One thing that is certain, however, is that the corporate vultures are descending; and this is happening at the cost of Zimbabwe's remaining, and limited, sovereignty.

[Shawn Hattingh, 4 October 2007][1]

[1]From :"South Africa in Zimbabwe: the vultures have descended", Centre for Civil Society, Durban 2007.

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Abbreviations

ANC	African National Congress
AU	African Union
BBC	British Broadcasting Corporation
BoP	Balance of Payments
BUSA	Business Unity South Africa
COSATU	Council of South African Trade Unions
ESAP	Economic Structural Adjustment Programme
Forex	Foreign exchange
GDP	Gross domestic product
IMF	International Monetary Fund
IT	Information technology
JOC	Joint Operations Command
MDC	Movement for Democratic Change
NEPAD	New Partnership for Africa's Development
NCA	National Constitutional Assembly
RBZ	Reserve Bank of Zimbabwe
SACP	South African Communist Party
SADC	Southern African Development Community
SARS	South African Revenue Service
ZANU PF	Zimbabwe African National Congress, Patriotic Front
ZCTU	Zimbabwe Congress of Trade Unions

ZIMPREST	Zimbabwe Programme for Economic and Social Transformation
ZSE	Zimbabwe Stock Exchange

Executive Summary

Since the onset of the Zimbabwean crisis, the role of South Africa, as both a help and hindrance, has been continuously debated. In particular there has been a certain cynicism about South Africa's policy of "quiet diplomacy" being driven by the economic interests of the South African state and its corporate sector. While this report argues that South Africa's policy has been guided by the broader political concerns of the South African state on the continent, it is clear that the growing evidence of South African business concerns exploiting the conditions of the Zimbabwean crisis has to be looked at more carefully in terms of its on-going effects on South Africa's strategy on Zimbabwe.

The collapse of Zimbabwe's economy in recent years has been catastrophic. Zimbabwe's gross domestic product (GDP) plummeted 40% from 1999 to 2003, since when it has continued to decline precipitously. The drastic shrinkage of the economy has been attributed to the collapse of the key contributors to the country's GDP – agriculture, manufacturing and tourism – following the introduction of the government's contentious fast-track land redistribution programme in 2000**.**

Manufacturing, mining and export sectors have declined steeply. Manufacturing, which at its height constituted 16% of GDP, has shrunk by more than 35%. Unemployment hovers near 80%. The Zimbabwean dollar is almost worthless from hyperinflation. Tourism earnings, once Zimbabwe's second biggest source of foreign currency, declined form US$198 in 2004 to US$98 million in 2005, a decline of 49%. The mining sector has been faced with serious shortages of raw materials due to the dearth of foreign exchange. Production capacity has declined precipitously and production costs have increased hugely. The deterioration of agriculture, the mainstay of Zimbabwe's economy which at its prime constituted 50% of exports, has had a disastrous impact on the economy.

Between 1998 and 2001, foreign direct investment in Zimbabwe dropped by 99%. The risk premium on investment jumped from 3,4% in 2000 to 153,2% by 2004. And Zimbabwe has experienced a tremendous drop in agricultural production, with maize, groundnuts, cotton, wheat, soybean, sunflowers, and coffee production contracting between 50% and 90% between 2000 and 2003.[2] The country's financial institutions are in disarray and its once productive farms sit idle. Thanks to the Zimbabwean government's lack of fiscal discipline, Zimbabwe's domestic debt has swelled considerably in recent years. In 2003, the ratio of domestic debt to GDP stood at 14.2%. In May 2005, the ratio had risen to over 16% of GDP.

The economic crisis in Zimbabwe, like economic crises in many African countries, has bred a political and social crisis. *Operation Murambatsvina* struck at the heart of Zimbabwe's informal economy. With national unemployment hovering around 80%, the clean-up campaign aggravated the already unbearable levels of poverty, social suffering and hopelessness pervading Zimbabwe. A related social impact of *Operation Murambatsvina* has been the rise in homelessness caused by the government's crackdown on 'illegal structures and crime,' with as many as 1.5 million Zimbabweans losing their homes in the clampdown.

Owing to unreasonable price controls and ballooning overheads, many retail outlets have not been able to stock foodstuffs and basic commodities such as sugar, maize meal, soap, margarine, toothpaste, salt, milk, bread, flour and cooking oil. The high demand for essential goods has led to high prices for basics, denting the incomes of workers already reeling from increases in transport and medical costs. Zimbabwean national life has been crippled by a deepening fuel crisis induced

[2] Craig Richardson, 'Implosion slo-mo*,' Financial Mail*, 5 May 2006.

by a chronic lack of foreign currency and escalating international prices for oil. In addition to food and fuel scarcities, Zimbabwe has experienced constant electricity and water cuts.

The unprecedented economic crisis besetting Zimbabwe has forced many highly educated citizens to leave the country. Doctors, nurses, lawyers, bankers, teachers, civil servants and many other professionals have emigrated to countries such as Australia, Britain, Botswana and South Africa in search of a better life. The exodus of professionals has resulted in critical staff shortages and the collapse of key public service sectors, notably education and health. The health sector the government had resorted to re-employing retired nurses to help alleviate staff deficiencies in government hospitals. Zimbabwe's public hospitals are estimated to have a shortage of 3000 nurses. This poses immense challenges for a nation where the overwhelming majority of the population depends on public health care, and where approximately 20% of the adult population is afflicted by the HIV/AIDS pandemic.

The response of the Zimbabwean government to this economic catastrophe has thus far added to the existing problems. In June 2007 the Government introduced Operation Reduce Prices, which according to the Reserve Bank Governor, Gideon Gono, in part, "fell prey to selfish predatory tendencies for certain players in the Taskforce implementation teams.......through a disproportionate course of activities geared to promote personal interests". This admission adds to the growing evidence of rent-seeking activities that have been carried out by large sections of the ruling party elite and have contributed to the economic debilitation of the country.

Similarly with the recently passed Indigenisation Bill, there is strong reason to expect that the legislation which insists on 51% ownership of all foreign business passing into indigenous hands, will in fact add to the patronage base of the ruling elite without dealing with the more fundamental problems in the economy. Both theses responses speak more to the electoral opportunism of the ruling party and accumulation needs of the ruling elite than to the broader national interests of Zimbabweans.

The roots of the South African government's policy of 'quiet diplomacy' or constructive engagement towards Zimbabwe can be traced to 1999 when Thabo Mbeki became South Africa's president. The key objective of this policy has been to use non-violent means to "encourage" the Mugabe regime to bring about democratic change in Zimbabwe. Furthermore, the policy has been designed with the objective of "preventing a complete collapse of authority in Zimbabwe."

South Africa's policy of 'quiet diplomacy' has drawn severe criticism internationally, in South Africa and in Zimbabwe. Some have suggested that South Africa's diplomacy has bordered on collaboration with the Mugabe regime. Concerns have also been raised about the incompatibility of Mbeki's Zimbabwe policy with his proclaimed vision of an African Renaissance. Given Zimbabwe's economic dependence on South Africa, domestic and international critics of Zimbabwe have urged South Africa to use its immense economic leverage coercively against Zimbabwe by imposing economic sanctions. Mbeki has adamantly opposed the implementation of sanctions against Harare, pointing that punitive economic measures would have potentially destabilising consequences, including a huge including a huge influx of refugees, disruption of trade links, and general chaos on the border.

This study has four main findings. First, South Africa's policy towards Zimbabwe is extremely unlikely to change under the Mbeki presidency. Mbeki's refusal to consider an alternative policy to 'constructive engagement' is rooted in several important considerations, including: a desire to shed South Africa's 'Big Brother' image; a preference for multilateral, not unilateral, approaches to conflict resolution; a belief in African solutions by Africans; a quest to cement South Africa's African identity; a sensitivity to domestic black opinion; a refusal to interfere in the internal affairs of another sovereign state; and constraints imposed by the challenge to South Africa's leadership by other regional states. These are salient factors that Mbeki's successor would have to weigh carefully before deciding on his/her policy approach to Zimbabwe.

Second, notwithstanding Zimbabwe's political and economic problems, trade and investment ties between South Africa and Zimbabwe remain very strong. Perhaps because of its troubles, Zimbabwe remains South Africa's most important trading partner in Africa. And the strong economic ties between the two countries are poised to continue into the future; South African companies are unlikely to pull out of Zimbabwe because of that country's internal crisis. Many South African firms believe Zimbabwe is still a better and easier place in which to do business than many other African countries, and they have found ways to negotiate Zimbabwe's largely dysfunctional economy in order to maintain a presence there in expectation of eventual political change and economic recovery.

Third, while the South African government's response to the Zimbabwean crisis has been driven by broad political concerns, it is also clear that sections of the corporate sector from South Africa engaged in Zimbabwe have exploited the opportunities thrown up by the crisis in that country.

Fourth, although the South African business sector has supported the South African government's policy of 'quiet diplomacy' towards Zimbabwe, it has urged the government to take a much tougher line and speak out more forcefully about the breakdown of the rule of law, human rights abuses, and economic chaos in Zimbabwe. This opinion has emerged particularly since SA business interests have also had to deal with the vagaries of the authoritarian Zimbabwean state. Whether the South African business sector can meaningfully influence the process of resolving Zimbabwe's problems will depend on the degree to which the government is willing to accommodate its proposals and concerns.

Recommendations

- As the economic and political crisis in Zimbabwe has deepened, there are clear indications that the crisis has offered new opportunities for South African business to extend its influence in the country. The ways in which this has impacted on the SA government's foreign policy on Zimbabwe needs to be pursued more carefully. While economic considerations on their own do not account for the policy of "quiet diplomacy", there are clear signals that the growing involvement of elements of the emerging South African elite in exploiting the Zimbabwe crisis needs further exploration.

- As the South African-led SADC mediation proceeds, all those involved in the process need to be clear about the economic interests of the South African state and its corporate partners in the Zimbabwean economy.

1. The Political and Economic Contexts of the Zimbabwe Crisis

1.1. Political context

For almost a decade now, Zimbabwe has defied expectations of collapse. Analysts have increasingly spoken of an economy in freefall, of the non-sustainability of the Zimbabwe African National Union-Patriotic Front (ZANU PF) regime, and of worsening polarisation between citizens. Between one and three million Zimbabweans are in the Diaspora – up to a quarter of the population, while millions survive by cross border trading. Most of those remaining in Zimbabwe can no longer provide food for themselves. Inflation is runaway – slightly over 13 000%, at the time of writing.[3] Political violence has become increasingly brazen, with known opponents of government suffering routine abuse. After a leader of the opposition Movement for Democratic Change (MDC) was beaten in police cells earlier this year, President Mugabe's response was that "he deserved a good hiding".

Yet unlike most situations overtaken by brazen authoritarianism, divisive politics, economic adversity, in Zimbabwe the buildings are still standing. They are not pock-marked with bullet holes from gunfights. The streets are safe, peaceful, even clean. Parliament continues to gather, replete with full ceremony. Elections are regularly held. The economy seems continually to arrive at the edge of collapse - and then steadies itself and survives. Zimbabwe thus holds an unusual mix of outward orderliness and an inward degradation - an unproblematic appearance belied by repressive legislation, by the extraordinary numbers, and by continual testimony of abuse at the hands of state forces.

Amidst these contradictions, questions are being asked with growing urgency about how the incumbent regime manages to survive. How does it sustain itself? Who supports it? How precisely? South Africa, widely viewed as best placed to intervene – geographically, economically, politically, strategically – has been heavily criticised for policies that have produced no change.[4] A rapidly eroding economy and drastically shrunken democratic space in the backyard of Africa's economic and political powerhouse: it seemed unlikely that such a scenario would unfold, let alone go unchallenged by South Africa. Yet today South Africa occupies a questionable, ambiguous role in the Zimbabwe crisis. It is this role that forms the chief concern of this inquiry.

Ahead of that discussion, it may useful to briefly observe the contours of the crisis within Zimbabwe, which can, in part, be traced back to an inchoate, unsatisfying transition from colonial rule. To cite but a few examples:

- **Political intolerance.** The leadership of ZANU PF has always used extreme, oppressive measures to subjugate any political opposition. This led in the 1980s to "Gukurahundi", the massacre of more than 10,000 civilians in Matabeleland in a successful drive to eliminate ZAPU. The rise of the MDC since 1999 has led to the current crisis of state orchestrated oppression.

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[3]The Consumer Council of Zimbabwe assessed inflation at 13,000% in June: the Central Statistical Office put inflation at nearly 8,000% in September 2007, but this figure is based on controlled prices for goods that are in reality only available on the black market for much higher amounts: real inflation may be as high as 20,000% already.

[4] See, among others, Phimister, I. 2005. 'South African diplomacy and the crisis in Zimbabwe: Liberation solidarity in the 21st century,' in Brian Raftopoulos and Tyrone Savage (eds.); McKinley D, "South African foreign policy towards Zimbabwe" in *Review of African Political Economy,* 100: 357-364; International Crisis Group, *Zimbabwe: The Politics of National Liberation and International Division,* " 2002, accessible through www.icg.org.

- **Constitutional frustration.** Demands for a constitution to replace that negotiated at Lancaster House, and the repressive amendments made in the post 1980 period by the Mugabe regime, have been made by all parties, at various times.
- **Militarised governance.** The dependence of the state on coercive methods of rule that was established in colonial times has been carried over into an independent Zimbabwe,[5] with state forces being deployed to devastating effect against democratic opposition activities in recent years. Moreover there has been an increasing militarisation of the state with military personnel now driving central government policies and parastatals. This development is a reflection of Mugabe's growing reliance on the military to maintain his rule.
- **Land policy.** Inequitable patterns of land ownership were largely left unaddressed almost two decades into independence, precipitating several years of violent seizures of white-owned farms by government sponsored militia.[6]
- **Ethnic divisions.** Formalized during colonial times, ethnic divisions between Matabele and Shona were exacerbated after independence, most notably as a result of the massacres in the mid-1980s known as the *Gukurahundi* – the killing of over ten thousand civilians in Matabeleland by 5 Brigade.[7] Ethnic cleavages have also emerged in opposition politics, as the division of the MDC has, in part, been expressed in ethnic terms, though these divisions are much more related to organisational and accountability issues in opposition politics. [8]

This list of features of public life in Zimbabwe untransformed since Independence is extensive and could be continued at some length. Yet the current crisis is less prosaic than a listing of historically entrenched problems might suggest. Rather, it involves a relentless instrumentalisation of this unresolved history for strategic political ends, most notably since drought and a variety of other factors produced an economic crisis in the mid-1990s. The response of government was to tighten control, push for tighter controls over the party state, and, when that prospect failed to materialise, to reposition itself at the centre of systems of patronage. The result was that proximity to those with access to state power became the goal of much political activity – and protest against hardship translated into protest against government.[9]

In the 1990's a series of strikes ran through virtually every sector of the economy. When civil servants were able to secure a 35% increase in wages, demands from other sectors intensified. Among these were veterans of Zimbabwe's liberation war, who on Heroes Day, 11 August, 1997, harassed and booed Mugabe – a massive embarrassment for a president whose persona had been crafted around his role as a liberation leader and whose patronage had been portrayed as a continuation of that struggle. Ten days later, government agreed to massive, unbudgeted payouts to veterans. The following month, Mugabe made an executive decision to send Zimbabwean troops to the Democratic Republic of the Congo. While the presence of an estimated quarter of Zimbabwe's army in the Congo brought an array of business concessions to officers and other highly placed figures in Mugabe's system of patronage, it cost the nation, by government's own accounts, US$200 million. September 1997 marks the institution of extreme measures that, however useful to Mugabe's political survival, occasioned the beginning of a steep decline of the Zimbabwean economy.

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[5] Savage T and Chimhini S. 2002. 'Zimbabwe: A Hundred Years War" in *Through Fire with Water: Understanding the Roots of Division and Assessing the Potential for Reconciliation in Africa* – 15 Case Studies (Erik Doxtader and Charles Villa-Vicencio [eds.], Cape Town: David Philip).

[6] Sachikonye L. 'From Growth with Equity to Fast Track Reform: Zimbabwe's Question.' *Review of African Political Economy,* 96: 227-240.

[7] Catholic Commission for Justice and Peace and the Legal Resources Foundation. *Breaking the Silence, Building True Peace: A Report on the Disturbances in Matabeleland and the Midlands, 1980 – 1988.* (Harare: Legal Resources Foundation, Catholic Commission for Justice and Peace, 1997).

[8] This has been widely noted. Most recently, the rift in the opposition is discussed in Human Rights Watch. "A Call to Action: The Crisis in Zimbabwe: SADC's Human Rights Credibility on the Line." August 2007, No. 1.

[9] See Savage and Chimhini, in Doxtader and Villa-Vicencio (eds.), 2002: 190.

That decline has been the subject of numerous studies and commentaries, most of which observe an appalling deterioration of living conditions, make dire predictions of imminent collapse, and struggle to answer underlying questions about how the incumbent economic and political order has managed to remain in place. Tackling this question will form an integral part of the present study. Suffice it here to begin by briefly outlining, in broad terms, the political dimensions the crisis has developed in the context of this economic descent.

The six occasions since 2000 on which Zimbabweans have gone to the polls offer a frame through which the salient features of the crisis can be charted. The most pivotal has been the first, the constitutional referendum of February 2000. In the late 1990s, in the wake of the arrival of democracy in South Africa and in response to a series of repressive constitutional amendments in Zimbabwe, civil society mobilised to demand a new constitution, under the umbrella body of the National Constitutional Assembly (NCA). Government hastily formed its own Constitutional Commission and put to a referendum a constitution which sought to entrench executive powers. The NCA handed Mugabe his first defeat at the polls in twenty years.

One key outcome of the referendum was a surge of hope that change could be produced through a democratic process. The parliamentary elections in 2000 thus saw the ruling party subjected to unprecedented challenge from the newly established MDC, which swept the urban vote and won 57 of the 120 contested seats. The elections were marred by violence, however, with state sponsored militia and ZANU PF supporters reportedly responsible for over 90% of the incidents. The opposition mounted legal challenges against 38 of the election outcomes. Mugabe replied by issuing a presidential indemnity that covered the abuses, attempting – unsuccessfully - to block the MDC's legal challenges and then stalling legal proceedings to the fullest extent possible. [10].

The aftermath of the 2000 elections was thus marked by general irresolution, intensifying discontent, escalating violence by militia – not least the "veterans" who, firmly under Mugabe's patronage, were now transforming into brigand bands of all ages – and heightening of the stakes ahead of the 2002 presidential elections. Mugabe located this election within the broader land struggles which he called "the Third Chimurenga" – the third liberation struggle. Political violence escalated dramatically, with at least 16 political assassinations reported in the first two months of the year and thousands of political assaults. Large parts of the country became no-go areas for opposition supporters. Ruling party militia set up road blocks in rural areas and interfered with those who could not produce ZANU PF party cards.

The election itself was marked by massive interference from the executive. The chiefs of the military made it clear they would reject Mugabe's opponent, should he win.[11] Hundreds of thousands of registered voters found themselves stripped of their rights: voters from rural areas working in the city arrived at the polls and were told they could not vote. Zimbabweans residing outside the country - other than government, military or electoral officials – had the same problem. The voters roll was kept secret and the counting done in secret. Even the ballot boxes became a point of contestation: their design ensured they could be sealed on top, but the structure could be interfered with in other ways. In short, all indications were evident of vote rigging on a massive scale. The Zimbabwe Election Support Network, the Southern African Development Community (SADC) Parliamentary Forum, the Commonwealth Observer Group and a various other bodies rejected the election. Yet the South African Observer Mission declared that it could not call the

[10] Over the last seven years, the independence of the judiciary has been effectively undermined with forced resignation of judges, regular defiance of court orders by government officials, and political cases being held up interminably in the courts. By the election of 2005, there had been no final resolution to the election appeals of 2000!

[11] The incident is discussed in detail in Martin Rupiya, 'Contextualiing the military in Zimbabwe between 1999 and 2004 and beyond,' in Raftopoulos and Savage (eds.), 2005: 81.

election free or fair, but nonetheless adjudged the event to have been "a legitimate expression of the will of the people of Zimbabwe".[12]

Against expectations of similar, blatant violations, the parliamentary elections of 2005 proceeded with few incidents of overt violence. At the same time, the period in between elections was marked by the promulgation of repressive legislation, including the notorious *Public Order Security Act* and the *Access to Information Protection of Privacy Act,* which, along with continuing debate about the Non-Governmental Organizations Bill, undermined civil liberties such as the right to freedom of assembly and effectively outlawed public participation in democratic debate on national issues. In the weeks prior to the voting, permission was granted to opposition parties to gather and campaign – although the repressive laws remained. Election observers were "cherry picked", to quote one South African commentator, to forestall critical response from most international and regional bodies. The voting went ahead with extraordinary technical expertise. Chief outcomes were a low turnout, widely viewed as indicative of a general loss of faith in the democratic process, and a disastrous showing by the opposition.[13]

Three months after the elections, government instituted Operation Murambatsvina (literally, "Clean out the filth"), a military style destruction of the homes and livelihoods of an estimated 700 000 Zimbabweans in urban and peri-urban areas that had voted with the opposition. Human Rights Watch commented, "Whatever its intent -- the urban clean-up claimed by authorities, or more sinister efforts to punish and break up the political opposition lest resentment explode into revolution -- that campaign has exacerbated a desperate situation in a country already sliding downhill for a half-decade." [14]

Unable to answer state abuses with political action and frustrated at the polls, opposition forces have become markedly divided. In the MDC, two factions have emerged as a result of problems around organisation, accountability and strategy. The factions crystallised around the prospect of contesting the newly created Senate in November 2005. Although low voter turnout deprived the institution of any significant legitimacy, the exercise helped consolidate ruling party control of political processes, both by dividing and weakening the opposition and too by creating a secondary arena for the emergence from within ZANU of potential successors to Mugabe. Most disturbing in this regard since the establishment of the Senate has been the growing presence of hardliners deeply entrenched in the militant authoritarianism that now defines the ruling party culture.[15]

The dilemma for democratic opposition within Zimbabwe encapsulates the challenge confronting external actors seeking to intervene. In response to the disturbing normalisation of political violence that culminated in the beating of opposition leader Morgan Tsvangirai and other political and civic activists at a police station, the SADC Heads of State and Government convened an extraordinary

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[12] Motsuenyane S. 2002. "Interim Statement by the SA Observer Mission on the Zimbabwean Presidential Elections of 9 and 10 March 2002". See too Zimbabwe Election Support Network, "Post-Election Assessment – Elections in Zimbabwe 2002"; SADC Parliamentary Forum, "2002 Zimbabwe Presidential Election Observation Report,"); Commonwealth Observer Group to the Zimbabwe Presidential Election, 'Preliminary Report of the Commonwealth Observer Group on the Zimbabwe Presidential Election, 9-10 March 2002'.

[13] See Alexander K and Raftopoulos B. 2005. *The Struggle for Legitimacy: A Long-term Analysis of the 2005 Parliamentary Election and its Implications for Democratic Processes in Zimbabwe*, Cape Town: Institute for Justice and Reconciliation; Human Rights Watch, "Post-Election Zimbabwe: What Next?" Africa Report N°93: 7 June 2005. Two rural district council elections in 2002 and 2006 have both served to underline the overwhelming tendency of rural voters to vote for ZANU PF, particularly in rural Mashonaland. The majority of voters in Zimbabwe are rural.

[14] Human Rights Watch, "Zimbabwe's Operation Murambatsvina: The Tipping Point?" Africa Report N°97: 17 August 2005.

[15] International Crisis Group, "Zimbabwe's Continuing Self-Destruction." Africa Briefing No. 38, 6 June 2006.

Photo 2: "Operation Murambatsvina" in June 2005 destroyed 700,000 homes and livelihoods.

Photo 3: riot squads oversaw "Operation Slash Prices" in July 2007. Here they patrol a fuel queue as they force garages to sell off fuel at 30% of cost.

Photo 4: 'play money' - children fish Zimbabwe dollars out of the dustbin after "Operation Sunrise" made the currency valueless in the space of 21 days. August 2006.

Photo 5: Riot squads throw tear gas at demonstrators. Harare, October 2007.

meeting in March 2007 at which South African president, Thabo Mbeki, was appointed to mediate the Zimbabwe crisis. The chief outcome to emerge have been an ongoing mediation process which has locked both ZANU PF and the MDC into discussions on the establishment of conditions for a free and fair election in 2008.[16] These discussions are due to conclude at the end of October, and as part of the confidence building measures around the process, the MDC supported the passing of Constitutional Amendment No 18 in September 2007, purportedly setting the context for Mugabe to plan more confidently for the succession issue in ZANU PF.

1.2. Economic context

The collapse of Zimbabwe's economy in recent years has been catastrophic. Zimbabwe's GDP plummeted 40% from 1999 to 2003. Independent projections expect it to diminish further. The drastic shrinkage of the economy has been attributed to the collapse of the key contributors to the country's GDP – agriculture, manufacturing and tourism – following the introduction of the government's contentious fast-track land redistribution programme in 2000.

A number of other significant developments have affected the economy in 2007. Firstly Operation Reduce prices which began in June 2007, has had disastrous effects on the economy. In his Mid-Year Monetary Policy Statement on 1st October 2007 Gideon Gono, the Governor of the Reserve Bank of Zimbabwe, said that some parts of the government's intervention in this policy,

> .....fell prey to selfish predatory tendencies of certain players in the Taskforce implementation teams who went on to knee-jerk the noble intentions of the programme through a disproportionate course of activities geared to promote personal interests with the result that they ended-up either arrested or simply tarnished the image of the government and making the supply situation worse by creating fear and chaos in the system.[17]

Secondly, the Indigenisation Bill was passed in parliament in October 2007 which states that all foreign owned business must now have 51% indigenous ownership. The central problem around this issue, as discussed below, relates to the way in which such legislation will be used to extend the patronage of the ruling party elite. Reserve Bank Governor Gideon Gono also recently expressed concerns about the dangers of this legislation in his Mid-Year Statement:

> We must avoid schemes which create perceptions of instant gratification through 'grab, take and run' and instead go into value for money, win-win type of acquisitions that are promotive of good relations inside and outside the companies between the newly wedded business partners, be it Government per se or private individuals.[18]

Gono's concerns become immediately apparent when in the same of issue of *The Chronicle* Mugabe 'warns profiteering businesses' that, "we will have to seize the companies, and the services… whether transport or any other service being rendered by company or organisation." [19]

These two developments need also to be seen within the context of the growing informalisation and Diasporisation of the Zimbabwean economy, which reflect the growing threats to the reproduction

[16] Human Rights Watch, "A Call to Action: The Crisis in Zimbabwe: SADC's Human Rights Credibility on the Line." August 2007, No. 1.
[17] *The Chronicle,* Bulawayo, 2 October 2007.
[18] Ibid.
[19] Ibid.

Photo 6: rural business centre in Matabeleland entirely closed after price slashes emptied shelves and made restocking financially impossible. August 2007.

Photo 7: empty shelves, urban supermarket, August 2007.

of Zimbabwean families and the desperate measures which are being taken by the Zimbabweans to survive the economic decline.[20]

Manufacturing, mining and export sectors have declined steeply. Manufacturing, which at its height constituted 16% of GDP, has shrunk by more than 35%. Unemployment hovers near 80%. The Zimbabwean dollar is almost worthless from hyperinflation with the black market rate standing at 1,000,000 Z$ to 1 US$ in October 2007. Tourism, once Zimbabwe's second biggest source of foreign currency, has continued to dwindle. Tourism earnings declined form US$198 in 2004 to US$98 million in 2005, a decline of 49%.[21] The mining sector has been faced with serious shortages of raw materials due to the dearth of foreign exchange. Production capacity has declined precipitously and production costs have increased hugely. The deterioration of agriculture, the mainstay of Zimbabwe's economy which at its prime constituted 50% of exports, has had a disastrous impact on the economy.[22]

Between 1998 and 2001, foreign direct investment in Zimbabwe dropped by 99%. The risk premium on investment jumped from 3,4% in 2000 to 153,2% by 2004. And Zimbabwe has experienced a tremendous drop in agricultural production, with maize, groundnuts, cotton, wheat, soybean, sunflowers, and coffee production contracting between 50% and 90% between 2000 and 2003.[23] The country's financial institutions are in disarray and many of its once productive farms sit idle.

Thanks to the Zimbabwean government's lack of fiscal discipline, Zimbabwe's domestic debt has swelled considerably in recent years. In 2003, the ratio of domestic debt to GDP stood at 14.2%.[24] In May 2005, the ratio had risen to over 16% of GDP, according to the Reserve Bank of Zimbabwe.

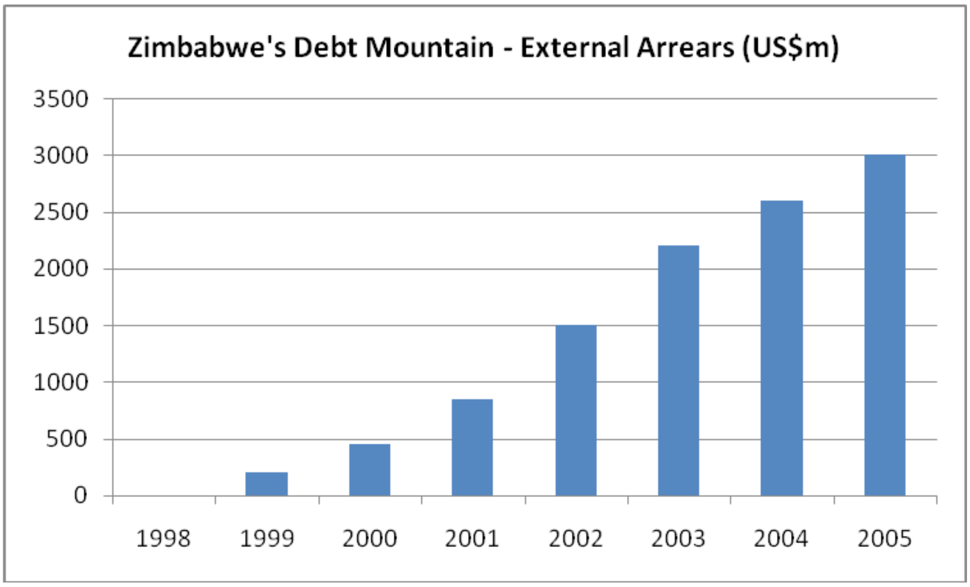
It is generally accepted that the current economic crisis in Zimbabwe can be traced to the events of 1997, when President Robert Mugabe caved in to pressure from the war veterans and undertook to make huge compensation payments to them. This crisis ought to be understood within the context of both the Economic Structural Adjustment Programme (ESAP) and long-term structural problems in the Zimbabwean economy.[25] The decision to make payments to the war veterans was political and it failed to take into account the government's enormous financial constraints, thereby setting in motion a pattern of fiscal deficits that were to paralyse the Zimbabwean economy in subsequent years. These fiscal deficits had surfaced long before the start of the crisis, but the government's attitude to them had always been that they did not matter.[26]

The government's 'penchant for living beyond its means' was aggravated by the badly managed fast-track land redistribution programme – also driven by political calculations – initiated by ZANU PF. This coincided with the abandonment of the ESAP that the government had introduced in 1991, and the reinforcement of state regulation of the economy.[27] The crisis worsened after the

[20] A conservatively estimated 50% of Zimbabwean families rely on monthly remittances. While formal quantification is not possible, South African businesses have benefited hugely from Zimbabwe's implosion in the form of cross border shopping and trading. See Bracking and Sachikonye, "Remittances, poverty reduction and the informalisation of household wellbeing in Zimbabwe", paper at "Living on the Margins" conference, Stellenbosch, 2006.
[21] 'Zimbabwe tourism takes a hard knock,' *Business Report*, 31 March 2006.
[22] Reserve Bank of Zimbabwe, Monetary Policy Statement, Fourth Quarter 2004 and Roadmap for 2005, January 2005.
[23] Craig Richardson, 'Implosion slo-mo*,' Financial Mail*, 5 May 2006.
[24] See Reserve Bank of Zimbabwe, Monetary Policy Statement, Second Quarter, July 2004
[25] See Patrick Bond and Simba Manyanya (2003). *Zimbabwe's Plunge*, London: Merlin Press.
[26] I am grateful to Zimbabwean economist Rob Davies for this insight.
[27] Davies R. 2004.'Memories of underdevelopment – a personal interpretation of Zimbabwe's decline,' in Brian Raftopoulos and Tyrone Savage (eds.), *Zimbabwe – Injustice and Political Reconciliation*, Cape Town: Institute for Justice and Reconciliation.

International Monetary Fund (IMF) withdrew the balance-of-payments support it had provided to Zimbabwe under ESAP. The withdrawal of balance-of-payments support was the result of government not sticking to targets that it not only had agreed with IMF, but also had enunciated as its own targets in its home-grown successor to ESAP – Zimbabwe Programme for Economic and Social Transformation (ZIMPREST). This reflects the ZANU PF government's refusal from the 1980s to be constrained by budget considerations.[28]

Figure 1:



Source: Reserve Bank of Zimbabwe

With fiscal deficits spiralling out of control, inflation on the rise, the authority of ZANU PF being challenged by political opponents, government regulation began to assume an authoritarian dimension. The period after 2000 saw an intensification of state involvement in the economy and a rapid militarisation of the state apparatus calculated to underpin the barrage of repressive measures the government had put in place to stifle dissent and subdue opposition to government policies.[29]

The economic crisis in Zimbabwe, like economic crises in many African countries, has bred a political and social crisis: a deepening economic crisis has been matched by an intensification of state authoritarianism and together they have propelled the downward spiral. Starved of foreign currency, and therefore unable to meet the social and economic needs of the electorate, the Zimbabwean state resorted to repression to crush a looming social revolt. With its back to the wall, the state unleashed vicious violence against its opponents, real or imagined, to prop up its faltering grip on power and disable a potential challenge to its hegemony.

Chronic foreign currency shortages lie at the heart of Zimbabwe's economic problems. It is the acute lack of foreign currency that has fuelled the economic crisis and sparked shortages of fuel, electricity, raw materials, equipment, spares and other essential goods.[30] Addressing Zimbabwe's foreign currency crunch was accorded priority in a recent report of the SADC Secretariat, whose executive secretary Dr Tomaz Salomão undertook a fact-finding tour of Zimbabwe ahead of the

[28] Observation by Zimbabwean economist Rob Davies.
[29] ibid.
[30] Reserve Bank of Zimbabwe, Monetary Policy Statement, Fourth Quarter 2004 and Roadmap for 2005, January 2005.

SADC Heads of State and Government Summit held in Zambia.[31] Starting from the premise that sanctions were the cause of Zimbabwe's economic problems, the report stated:

> The restoration of the country's foreign exchange generating capacity through balance of payments support is crucial; however, the most urgent action that is needed to start this process is to establish lines of credit to enable Zimbabwe to import inputs for its productive sectors, particularly for agriculture and foreign currency generating sectors.[32]

The report went further and spelled out the role SADC ought to play in this regard:

> SADC should do all it can to help Zimbabwe address the issue of sanctions, which is not only hurting the economy through failure to get BoP (balance of payments) support and lines of credit, but also through reduced markets for its products. Sanctions also damage the image of Zimbabwe, causing a severe blow to her tourist sector.[33]

Zimbabwe has not been able to mobilise sufficient levels of foreign exchange to meet its needs due to terrible export performance, lack of international balance-of-payments support, and significantly reduced external aid. It needs to be pointed out that lines of credit to the Zimbabwean economy were cut because of default by Zimbabwean firms who could not get the forex from the Reserve Bank of Zimbabwe (RBZ) to pay their debts. This was in large measure due both to the lack of clarity by the RBZ about how the forex should be allocated, and the misuse of the forex by the government of Zimbabwe. Moreover the problem for Zimbabwean companies has been less about reduced markets, than the inability of companies to produce and government taxation on exports through overvalued exchange rates. Thus the Zimbabwe government's tax policy on exporters to the point where exporting becomes a loss-making enterprise has done much more to stop exports than 'reduced market access'. One of the prominent symptoms of Zimbabwe's economic disintegration has been its exceedingly high inflation, estimated above 13,000% at the time of writing. The costs of Zimbabwe's rampant hyperinflation have been inestimable.

Apart from significantly eroding the buying power of incomes, inflation has smothered economic growth, triggered general uncertainty as business planning has become almost impossible, encouraged speculative activities, rent-seeking and other non-productive economic activities, and exerted a huge strain on the country's foreign exchange due to high import demand. The high inflation has also redistributed income away from those unable to protect themselves against it, and this relates predominantly to the poor. The state's response to the problem of inflation, apart from the disastrous Operation Reduce Prices in June 2007, has been to continuously print more money. Money supply growth has increased from 1,638.4% in January 2007 to an astonishing 17,073.1% in July 2007.[34]

In recent years, Zimbabwe has been plagued by a debilitating financial crisis, which has been ascribed to a number of factors including weak supervision and regulation of banks, as well as extensive mismanagement and inappropriate governance structures in certain banking institutions. Governance failures in the financial sector have contributed to the proliferation of corrupt activities such as money-laundering, externalisation of capital by banking executives, and the involvement of financial institutions in the parallel market. These problems have prompted the government to

[31] "Southern Africa: SADC backs Zimbabwe – Mbeki", *The Herald,* 28 August 2007. Accessible at the following URL: http://allafrica.com/stories/200708280072.html. Accessed 19 September 2007.
[32] Rangarirai Mberi, 'The Saomao report: Beneath the SADC sheen,' *The Financial Gazette*, 30 August 2007.
[33] ibid.
[34] *The Chronicle,* RBZ report, 2 October 2007.

intervene in the financial sector through legislation and corporate governance codes to curtail mismanagement and criminal activities. Given the still unstable banking industry, it is doubtful whether these measures will have the desired impact.

Since the onset of Zimbabwe's crippling economic recession in 1997, business confidence has taken a nosedive. For many businesses, operating in Zimbabwe has been a nightmare. Unbridled hyperinflation has brought, among other things, sharply falling profits and the corrosion of the real value of assets. Companies have struggled to procure various inputs necessary in the production process due to foreign currency shortages. The government's inconsistent policies, which have been changed frequently and implemented selectively, have bred uncertainty and rendered business planning almost impossible.

Political risk has accentuated the vulnerability of enterprises and raised insurance costs. Businesses have voiced concerns about high inflation that has emanated from foreign exchange parallel market activities. The implementation of price controls, designed to appease an electorate hit by high prices, has contributed to market distortions, increased the burdensome regulations imposed on business and threatened the viability of enterprises.

The massive cost of Zimbabwe's irrational economic policies was acknowledged recently in a lengthy report prepared by the Reserve Bank of Zimbabwe, in which Dr Gono outlined his efforts to persuade the government to change course from the destructive and perilous economic status quo. Among other things, he urged the government to: stop land invasions and the associated criminality, including poaching and cutting down trees; protect private property; rationalise external trade tariffs to enhance producer viability; exercise restraint in setting prices; respect existing and future investment protection agreements; privatise key parastatals; engage business in a social contract; stamp out corruption; provide subsidies for actual production as opposed to pre-production free handouts; and build an environment free of disruptive policy inconsistencies and enhance the viability of business.[35] Thus Gideon Gono, whose policies have contributed to the current crisis, has also shown some awareness of the consequences of government economic policies.

Significantly, these sentiments are echoed by the afore-said SADC Secretariat's report:

> Zimbabwe, on her part, must continue to implement robust policies to reduce the overvaluation of the exchange rate, to reduce the budget deficit and to control the growth of domestic credit and money supply which fuel inflation, and to reduce price distortions in the economy. Equally important is the need to avoid frequent changes in policy initiatives, which have caused uncertainties and led to the view that the policy environment is unpredictable. [36]

In sum, the economic travails of Zimbabwe are symptomatic of a broader, structural crisis of national governance. Politics and economics in the country are inextricably interwoven and without far-reaching political reforms no meaningful solutions can be found to Zimbabwe's economic problems.

As Dianna Games, a leading South African economic analyst, correctly noted, doing away with President Mugabe or changing the general leadership of Zimbabwe are necessary but not sufficient conditions for economic and political recuperation. Other key issues that need to be tackled (not in any order of importance) include:

[35] Percy Zvomuya and Lloyd Gedye, 'Inside the Gono dossier,' *Mail and Guardian* , 12 July 2007.
[36] Rangarirai Mberi, 'The Salomao report: Beneath the SADC sheen,' *The Financial Gazette*, 30 August 2007.

- The holding of free and fair elections, deemed to be so by independent observers from the local, regional and international community, based on their willingness to observe, and not on their selection by the government;
- The running of the election by truly independent institutions;
- Unhindered political participation by opposition parties in the political process;
- A return to the full and unconditional rule of law, under an independent judiciary;
- Negotiations on arrears to the multilateral institutions to unlock new funding flows into the country from the IMF, World Bank and donors;
- Addressing the country's massive domestic debt;
- Introducing proper fiscal management;
- Reigning in and reprioritising government spending;
- Addressing the land issue in consultation with all stakeholders to find ways to legally redistribute land and restore ownership;
- Encouraging commercial agriculture through various measures including incentives, training, extension programmes, provision of equipment and funding;
- Tackling the brain drain and skills shortages;
- Restoring a macroeconomic climate conducive to trade and investment and the encouragement of manufacturing and export-driven growth;
- A total re-evaluation of monetary policy to address foreign and local currency shortages, exchange controls, interest rates and financial stability and growth;

- Rebuilding confidence in Zimbabwe as a preferred investment and tourist destination.[37]

2. Purpose of the Study

The purpose of this research project is to make a preliminary assessment of the impact of South Africa's economic relations with Zimbabwe on the former's foreign policy towards the latter since the onset of the Zimbabwean crisis.

3. Method

The report draws from information obtained from Internet desktop research, official documents such as monetary policy statements, secondary sources such as books and journal articles, as well as face-to-face and telephonic interviews. The interviews took place in Pretoria and Johannesburg (South Africa) and Harare (Zimbabwe) during the period 10 August -- 30 September 2007. In South Africa, interviews were held with South African government officials, representatives of organised business, trade union representatives, media commentators, and civil society representatives. In Zimbabwe interviews were held mainly with civil society representatives, representatives of South African businesses operating in Zimbabwe notably mining, insurance and retail sectors, a Harare-based South African diplomat, and a representative of organised business.

4. Structure of the Report

Flowing from the preceding political and economic contextualisation of the Zimbabwe crisis, this report consists of four parts. The first assesses South Africa's policy of 'quiet diplomacy' towards

[37] See Games D. 2002. *The Zimbabwe Economy: How has it survived and how will it recover?* SAIIA Report No.30, Braamfontein: SAIIA.

Zimbabwe and seeks to establish the South African government's understanding of what the resolution of the Zimbabwe crisis would entail. The second part analyses the role, or lack thereof, that South Africa's economic interests in Zimbabwe have played in influencing South Africa's policy towards Harare. The third section examines commonalities and differences between the South African government and the country's private sector in respect of how they approach the Zimbabwe crisis. The final part briefly delineates the salient findings of the report.

5. The South African government and the "resolution" of the Zimbabwe crisis

The roots of the South African government's policy of 'quiet diplomacy' or constructive engagement towards Zimbabwe can be traced to 1999 when Thabo Mbeki became South Africa's president. The key objective of this policy has been to use non-violent means to "encourage" the Mugabe regime to bring about democratic change in Zimbabwe.

Furthermore, the policy has been designed with the objective of preventing a complete collapse of authority in Zimbabwe, which "would not only be disastrous for Zimbabwe but also for South Africa." Summing up the policy the South African foreign minister, Dr Nkosazana Dlamini-Zuma, asserted that South Africa "should work toward bringing the Zimbabweans back from the brink not to throw people over the precipice."

Even former president Nelson Mandela himself originally supported a quiet diplomatic approach to Zimbabwe. However, he subsequently denounced Mugabe for despising the people who put him in power and wanting to stay in power forever. Even so, Mandela loyally continued to back Mbeki's policy of quiet diplomacy – despite admitting to disagreeing with Mbeki on the Zimbabwe issue.

The South African government has argued that the situation in Zimbabwe represented a number of crises: a crisis of legitimacy as a consequence of the erosion of the post-colonial consensus constructed during the course of the liberation struggle; a crisis of expectations stemming from the worsening economic situation in Zimbabwe; and the failure of structural adjustment to reverse the erosion of social and economic gains of the independence period; and a crisis of confidence in the institutions of the state, inspired by the actions of the security forces and intimidation of the judiciary.

These crises, the government has contended, are structural and deeply enmeshed in the Zimbabwean political economy. As such, they have to be addressed as a domestic issue, with support from outside. As Mbeki stated: South Africa "would support, would assist, but reconciliation would have to be done by the people of Zimbabwe." [38]

The policy of 'quiet diplomacy' was subjected to, and failed, a stern test during Zimbabwe's presidential election of March 2002. The election was roundly condemned as unfree and unfair by a number of international observer teams, including the Norwegian mission, the parliamentary mission of the SADC, and the Commonwealth observer mission. However, the election outcome was sanctioned by the South African observer mission, which described the poll as "legitimate" but not necessarily "free and fair." The spokesperson of the African National Congress, Smuts Ngonyama, described the election as a legitimate expression of the popular will and offered

[38] 'Mbeki faces tricky dilemma over Zim,' *Sowetan*, 15 March 2002.

Photos 8 and 9: grinding poverty leaves millions of Zimbabweans in hopelessness. September 2007.

Photos 10 and 11: basic commodities are routinely sold round the back of stores under the watchful eyes of riot squads. Queues are a permanent feature of Zimbabwean life. September 2007.

"warm congratulations to ZANU PF and President Mugabe for a convincing majority win." President Mbeki himself proclaimed that "the will of the people of Zimbabwe has prevailed."

Mbeki's policy towards Zimbabwe has drawn severe criticism internationally, in South Africa and in Zimbabwe. Some have suggested that South Africa's diplomacy has bordered on collaboration with the Mugabe regime. Concerns have also been raised about the incompatibility of Mbeki's Zimbabwe policy with his proclaimed vision of the New Partnerships for Africa's Development (NEPAD) and an African Renaissance. NEPAD exhorts African countries to pledge themselves to applying self-regulatory measures, which include isolating members who flagrantly disregard good governance and democracy.[39]

South Africa's strategy of 'constructive engagement' has also been a subject of domestic criticism. Former Archbishop Desmond Tutu has described Mugabe as "almost a caricature of all the things the people think black African leaders do." Both the Congress of South African Trade Unions (COSATU) and the South African Communist Party (SACP) – key members of the tripartite alliance with the ANC – have voiced strong concerns about high levels of intimidation, violence, abuse of state resources, as well as the enactment of repressive laws since the Zimbabwean parliamentary elections in 2000. Even the governor of the South African Reserve Bank, Tito Mboweni, acknowledged that Zimbabwe would "never be moved by diplomacy."[40]

Given Zimbabwe's economic dependence on South Africa, domestic and international critics of Zimbabwe have urged South Africa to use its immense economic leverage coercively against Zimbabwe by imposing economic sanctions. Mbeki has adamantly opposed the implementation of sanctions against Harare, pointing that punitive economic measures would have potentially destabilising consequences, including a huge influx of refugees, disruption of trade links, and general chaos on the border.[41]

Although Mbeki has met personally with Mugabe on a number of occasions, these meetings have proved very frustrating for the SA President. Mugabe has either reneged on his undertakings or denied that he ever made them in the first place. To be sure, Mbeki even acknowledged in a BBC television interview that his Zimbabwe policy had not worked, pointing out that he was at that stage pinning his hopes on a new Commonwealth initiative to help the country.[42]

If Mbeki accepts that the strategy of 'constructive engagement' towards Zimbabwe has proved problematic, why then has he and his government refused to consider an alternative policy? Several considerations, in which South Africa's controversial policy of 'quiet diplomacy' is rooted, explain Pretoria's inflexible stance.

First, a desire to shed a 'Big Brother' image. Since Mbeki assumed the presidency he has been at great pains to assure fellow Africans that South Africa will not adopt a 'big brother' attitude on the continent. He has often declared that South Africa claims no right to impose its will on any country and will act only "within the context of its international agreements." Given the history of regional destabilisation by successive apartheid governments, democratic South Africa has rightly refrained from projecting its political power; memories of a regional bully are still fresh.

Second, a preference for multilateral, not unilateral, approaches to conflict resolution. Mbeki's preference has always been for an intra-African multilateral approach to Zimbabwe. Over the past

[39] Hamill J. 2002. 'South Africa and Zimbabwe,' *Contemporary Review*, 7 January 2002.
[40] See Graham V. 2006. 'How firm the handshake? South Africa's use of quiet diplomacy in Zimbabwe from 1999 to 2006, *African Security Review*, 15: 4, p.116.
[41] ibid.
[42] 'Mbeki: I failed on Zim,' *City Press*, 6 August 2001.

few years, South African regional diplomacy has focused on fostering regional unity and consensus-building, tackling the SADC's institutional problems, and on pursuing multilateral solutions to regional conflicts. On the contrary, South Africa has been anxious to prove that it is a good regional citizen and has striven to ensure that it acts in a manner that does not undermine the cohesion of the SADC. South Africa's humiliation in its unilateral dealings with Nigeria over the murder of Ken Saro-Wiwa by the Abacha regime played no small part in influencing the country's subsequent foreign policy choices. Mbeki has been anxious to avoid any repeat of the isolation South Africa experienced in 1995 as a result of the actions of the military dictatorship in Nigeria when Mandela sought to impose a punitive policy without sufficiently canvassing African opinion.[43]

Third, a belief in African solutions by Africans. President Mbeki has worked hard to keep his Zimbabwe policy within the African realm. At the heart of this approach has been an underlying resentment that Western powers were once again seeking to determine an African state's future. This is coupled with the view that Zimbabwe only enjoyed a prominence in Western political discourse because of the suffering of a privileged racial minority, the white farmers. Furthermore, Mbeki has been resentful of the West's rush to punish Africa for Mugabe's sins, which is "grossly unfair." He has argued that Zimbabwe is not representative of Africa and Mugabe does not typify African leadership.[44]

Fourth, a quest to establish South Africa's African identity. In light of the fall-out from South Africa's handling of the Nigerian crisis in 1995, Mbeki has assiduously worked to re-establish South Africa's African credentials. This followed a period in which many on the continent suspected that South Africa was un-African or was an appendage of the West. Mbeki has been determined to avoid a shunning of South Africa by the rest of Africa. This explains, for example, why he, mindful of the need not to alienate South Africa from the rest of Africa, was uncomfortable with his position in the Commonwealth *troika* (the other members of the *troika* were former Nigerian president Olusegun Obasanjo and Australian prime minister John Howard) and opposed the decision of the 2003 heads of governments to continue Zimbabwe's suspension from the Commonwealth.

Fifth, Mbeki's sensitivity to domestic black opinion. Irrespective of Mugabe's foibles as Zimbabwe's president, Mbeki is aware that any political attack on President Mugabe would not go down well among the rank and file of his supporters in the ANC. Land reform is a popular issue among the poorer, mainly black section of society in South Africa. As these people make up the backbone of support for the ANC, Mbeki has to be very careful not to criticise a leader in a neighbouring country who is regarded as doing more to help the rural poor. The polarisation of politics in Zimbabwe into a black and white issue, where government policy appears to be aimed at wresting economic control away from the white minority, has widespread appeal in South Africa. Many ANC supporters sympathise with Zimbabwe's problems and the government's attempts to redress historical social and economic imbalances.[45]

Sixth, a refusal to interfere in the internal affairs of another sovereign state. The South African government has repeatedly asserted that tough action against Zimbabwe would be inappropriate – Zimbabwe was a sovereign state and no other country had the right to intervene in its domestic affairs. This is one of the enduring problems with the SADC. SADC, indeed most African leaders, have tended to give precedence to group solidarity, forged in the cauldron of liberation politics, at the expense of democratic practice.[46] This explains why Mugabe, an icon of African liberation politics, has been allowed to get away with murder. .

[43] Majakatha Mokoena, 'Ear to the ground,' *City Press*, 24 March 2002.
[44] Interview with a South African political commentator.
[45] Greg Barrow, 'Mbeki's dilemma over Zimbabwe,' *BBC News Online*, 13 March 2001.
[46] Gerrit Olivier, 'Sovereignty scuppers SADC development,' *Business Day*, 12 March 2001.

The limitation of South Africa's policy of 'quiet diplomacy' in Zimbabwe bears eloquent testimony to the limits of Pretoria's regional power. It speaks to the constraints imposed on regional governance by the SADC's principle of non-interference in the internal affairs of member states.[47] The limits of South Africa's power vis-à-vis Zimbabwe became clear in 2005 when Harare requested a loan (estimated to be in the region of US$250 million) from South Africa in order to stave off a further deterioration in the country's economic crisis. This move was seen as providing a clear opportunity for South Africa to influence the political process in Zimbabwe by attaching conditions to the granting of the loan. Mindful of the threat posed by serious political conditions to ZANU-PF's continued control of Zimbabwe, President Mugabe flatly discounted making political concessions in return for South Africa's financial assistance.

Seventh, constraints imposed by the challenge to South Africa's leadership by other regional states. Under the leadership of Mbeki, South Africa has assiduously sought to cultivate a position as a 'natural' leader of the SADC region and, indeed, of the African continent. Invoking the rhetoric of 'African renaissance,' Mbeki has set out to reaffirm South Africa's African identity and legitimise its leadership ambitions.[48] As an active champion of the African Union (AU) and NEPAD, South Africa has played an essential role in reshaping the security discourse on the continent. One of the crucial challenges that confronted the emerging South African democracy was the extent to which its foreign policy would reflect the ethical and democratic values that had guided the anti-apartheid struggle.

Albeit with limited success, foreign policy during the Mandela presidency strove to propound the cardinal tenets of human rights, democracy, justice and international law.[49] In part, these constraints have to do with the fact that the new regional security paradigm propounded by South Africa has been challenged by some states within the region – notably Angola and Zimbabwe – which have refused to accept South Africa as the guardian of their interests.[50] Fundamentally, this has to do with power politics and relations among the regional states. At the heart of power politics have been the ongoing regional tensions within the SADC over issues of security, leadership and democracy. As Mda observed:

> Naturally, a group of nation states will resent a counterpart that dominates, whether by default or design. Perceptions of an overwhelmingly powerful South Africa could cause feelings of unease amongst its peers, in a region that still emphasises the importance of military prowess as the ultimate means of enforcing authority.[51]

Taking these hard realities into account, at what point and under what circumstances would then the South African government consider the Zimbabwe crisis to be fully resolved? To answer this question, it is worth noting that the policy of 'quiet diplomacy' is based on the so-called 'Mbeki doctrine:' the belief that while South Africa cannot force its own views on others, it can assist in dealing with regional instabilities by offering its leadership to bring opposing groups to the negotiating table. In Mbeki's view, the model of 'peace, power-sharing and reconciliation' that worked in South Africa could be applied elsewhere effectively.[52]

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[47] Alden C and Soko M. 2005. 'South Africa's economic relations with Africa: hegemony ands its discontents,' *Journal of Modern African Studies* 43, 3, pp.367-392.
[48] 'Come, let's be friends,' *The Economist*, 8 May 2003.
[49] Dlamini K. 2004. 'Ten years of foreign policy in the new South Africa,' *SA Yearbook of International Affairs 2003/04*, Braamfontein: SAIIA, pp.1-2.
[50] Mda N, 'South Africa's role in conflict resolution,' op cit., p.136.
[51] ibid., p.140.
[52] 'Mbeki faces tricky dilemma over Zim,' *Sowetan*, 15 March 2002.

On Mbeki's watch, South African foreign policy assumed a strong multilateralist thrust: the emphasis was on working with other countries to fashion common solutions to global and regional concerns.[53] In this context, the apartheid-era policy of regional destabilisation made way for a policy that emphasised dialogue and mediation as the key means of conflict resolution in the region. The new policy, which South Africa has sought to export to the rest of Africa,[54] focused on finessing political solutions to conflicts and sponsoring initiatives designed to limit regional insecurity. This has entailed, among other things, promoting conflict prevention and conflict resolution, advancing human rights, providing assistance in monitoring and dealing with domestic issues, such as elections, that have a bearing on regional stability. It has also involved propagating regional cooperation through the evolving conflict resolution mechanisms of the AU.[55]

South Africa's formative experience of conflict resolution dates back to 1996, when the country tried to broker a peace deal between the president of the then Zaire (which subsequently became known as the Democratic Republic of Congo), Mobutu Sese Seko and Laurent Kabila, who marshalled the rebel forces that deposed Mobutu from power.[56] In recent years, South Africa has actively championed a negotiated settlement to the Congolese conflict, and its mediation efforts resulted in the conclusion of the Inter-Congolese Dialogue in 2003 (which cost the taxpayer about US$20m), initiated under the Lusaka Ceasefire agreement.[57] South Africa has also been involved in mediating an agreement between Burundi's warring factions in that country's civil war. South Africa's mediation efforts culminated in the conclusion of a power-sharing agreement between the rebel forces and the government of Burundi.[58]

It is the so-called Mbeki doctrine that has influenced South Africa's approach to Zimbabwe. From South Africa's perspective, the ideal scenario would be to bring together reform-minded elements within the ruling ZANU-PF and the MDC with a view to crafting a compromise settlement, perhaps in the form of a government of national unity.[59] To be sure, South Africa initially campaigned for the installation of a government of national unity in Zimbabwe, but subsequently toned down the campaign down after realising the neither the ZANU-PF government nor the MDC backed it. Nonetheless, although they have not said it publicly some members of the South African government have privately acknowledged that they wanted Mugabe out to pave the way for a reform-minded, moderate government.[60]

This reform-minded government would, with external support, be expected to address the challenges that confront Zimbabwe and lay the basis for durable political and economic solutions. It would be expected to mend fences and build bridges across the political divide. It would be expected to set in motion processes to tackle the country's political problems and thereby mitigate political risk. It would also be expected to engender democracy and respect for the rule of law, cultivate respect for property rights, end state-sponsored human rights abuses, reduce corruption, and bring crime under control.

Moreover, it would be expected to begin the daunting task of turning around their ravaged economy. This requires joining forces with the business sector and civil society to forge a positive

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[53] 'South Africa's role in the world,' *The Economist*, 31 August 2000.
[54] Mda N. 2004. 'South Africa's role in conflict resolution in Southern Africa: prospects for cooperation with the US,' *SA Yearbook of International Affairs 2003/04*, Braamfontein: SAIIA, p.138.
[55] ibid., p.136.
[56] ibid., p.138.
[57] ibid., p.139.
[58] Initially, mediation efforts were led by the former South African president, Nelson Mandela. They were subsequently taken over by Jacob Zuma, the former deputy president who was axed by President Thabo Mbeki amidst corruption allegations. The current mediator is Charles Nqakula, the minister of safety and security.
[59] Interview with a South African government official, South African High Commission, Zimbabwe.
[60] Interview with a South African government official, Department of Foreign Affairs, Pretoria.

vision and workable recovery programme for Zimbabwe. It also entails creating conditions conducive to the return of Zimbabwean emigrants, channelling sustained efforts towards improving tetchy relations with the international community, especially the international financial institutions and foreign donors.

In sum, as Southern Africa's most powerful actor, and Zimbabwe's biggest African trade partner, South Africa recognises its obligation to help Zimbabwe resolve its problems. However, South Africa wants Zimbabweans themselves to take the lead in fashioning durable political and economic solutions.

There are potential obstacles to the realisation of the scenario envisaged by South Africa in Zimbabwe, though. The major obstacle has been the recalcitrance of significant factions of ZANU PF to a political reform process that could threaten the party's political power. Allied to this is the fact that the ZANU PF political elite has built up its economic assets on the basis of the property redistribution that has ensued from the political and economic turmoil in the country. The other factor has been the ANC's reserve concerning the capacity of the MDC to hold on to state power in the face of opposition from Zimbabwean armed forces loyal to the Mugabe regime. The current South African-led SADC mediation on the Zimbabwe crisis has given the South African government a new space to push for some form of national reconciliation in Zimbabwe in the context of a deepening economic crisis, continued western isolation of the Mugabe regime, and a weakened opposition that has a strong interest in the mediation process as a way out of the current impasse.

5. The economic interests of South Africa in Zimbabwe and the Southern African region, and the influence these have on the South African government's policy towards Zimbabwe

Trade and business ties between South Africa and Zimbabwe have existed for many decades and pre-date independent Zimbabwe. The importance of these linkages to both countries is underlined by the fact that bilateral trade remained robust despite political hostility at the height of the apartheid system in South Africa. South Africa's powerful position in the region enabled it to ensure that Zimbabwe remained reliant on its trade corridors to the sea-ports by destabilising the alternative routes through Mozambique and Botswana. As such, when Zimbabwe became independent South Africa was its largest trade partner, though this declined in the 1980's.[61]

Perhaps because of its problems, Zimbabwe remains South Africa's most important trading partner in Africa, and one of the 15 countries globally with which South Africa exchanges the highest volume of trade (see Table 1). Official trade figures, however, mask the growing informal trade that has been taking place across South Africa's borders with Zimbabwe since the beginning of the economic and political crisis. A significant proportion – accurate figures not available – of trade between South Africa and Zimbabwe takes place through informal means. With 80% of Zimbabweans out of a job, informal cross-border trade has become probably the only viable source of sustenance for millions of Zimbabweans. This trade is driven by Zimbabweans abroad who provide foreign exchange for goods required by relatives at home. It is estimated that several thousand people cross the border between South Africa and Zimbabwe each day, with many

[61] Games D. 2006. *A Nation in Turmoil – The Experience of South African Firms Doing Business in Zimbabwe*, SAIIA Business in Africa Report No.8, Braamfontein: SAIIA.

carrying goods for their own use or to sell. People sell goods in Zimbabwe paid for with foreign currency supplied by their relatives.[62] . The ZANU PF government announced recently that it was banning the importation of groceries from neighbouring countries as part of its price crackdown against retailers. This directive was, however, subsequently reversed following a public outcry.

Several of South Africa's biggest firms have investments, subsidiaries and interests in Zimbabwe. And the business linkages are extensive on every level. Close to 27 of South Africa's biggest listed companies have operations in Zimbabwe, and some of them are also listed on the Zimbabwe Stock Exchange (ZSE). Of all the companies listed on the ZSE, 60% are South African. Old Mutual is the biggest company on the exchange with about 18% of the ZSE market capitalisation index as at mid-May 2006.[63]

Table 1: Zimbabwe's top ten export destinations in 2005

	Country	Export Earnings (US$ million)
1	South Africa	145,556,392
2	Zambia	53,991,167
3	Botswana	33,572,346
4	Malawi	26,504,763
5	Mozambique	21,635,406
6	United States of America	16,198,230
7	Namibia	15,567,026
8	Italy	13,034,637
9	United Kingdom	12,312,058
10	Netherlands	12,136,685

Source: Zim Trade, 2006

Metallon Gold owns 60% of the formal sector gold mines, while South African-owned or part-owned mines, own over 90% of the platinum mines. Stanbic and the Commercial Bank of Zimbabwe (CBZ) are significant actors in the banking sector, while there are some sizeable stakeholders in the clothing retail sector, sugar, brewing and pulp and paper. For example, Cafca is 76% owned by South Africa's African Cables; CBZ is 26% owned by ABSA Bank; Delta is 34% owned by SABMiller; South Africa's Edcon owns 43% of Edgars; Anglo American owns 80% of Hippo Valley Sugar; Nampak owns 40% of Hunyani; Truworths is 33% owned by South Africans and South African shareholders own 48% of Murray & Roberts.[64]

South African investment, largely restricted to the mining sector, has been substantial over the past few years. By 2005, Implats' total investment in Zimbabwe was R1.7 billion, while Metallon Gold spent US$15 million on its mining interests and Anglo started work on the US$92 million Unki mine in 2005.[65] Moreover, South African companies are significant providers of employment in Zimbabwe. It is estimated that the 27 South African firms operating in Zimbabwe (and which are listed on the Johannesburg Securities Exchange) employ about 20 000 people.[66] And most of these companies are run by Zimbabweans.

[62] Musonda Chibamba, 'Zimbabwe collapse fuels cross-border trade,' *BBC News Online,* 7 September 2007.
[63] Zfn Realtime Financial Intelligence, a Zimbabwe financial information service.
[64] ibid.
[65] Shareen Singh, 'Sticking around in hope,' *Financial Mail*, 8 April 2005.
[66] ibid.

Although many South African companies in Zimbabwe have an established and enduring presence in the Zimbabwean economy, over the years a number of these firms have broadened their Zimbabwe-held shareholdings while retaining limited ownership or, in the case of Anglo American, selling off non-core assets. This has reduced the overall impact of the South African links, although South African-linked firms are still strongly represented in the economy.[67]

The similar language, business and social culture makes it easier for the South African to do business in Zimbabwe than it is for those of many other cultures. The closeness of the Zimbabwe market to South Africa makes it a natural trading partner as contiguity brings down the cost of logistics. Moreover, Zimbabwe's central location in the region enables business to be extended into other Southern African countries with little difficulty. Zimbabwe's diversified economy has created significant opportunities for South African companies to acquire stakes in Zimbabwean companies, create fully-fledged subsidiaries, and service the domestic market. The fact that Zimbabweans manage many of the South African companies also makes it easier for these firms to understand the way the government works, and how best to deal with the situation.[68]

Like other foreign companies, South Africans first have had to contend with an array of problems plaguing Zimbabwe's business climate, including the government's erratic policy decisions, high inflation, foreign currency shortages, a shrinking domestic market, frequent power cuts, fuel shortages, and crime.[69] South African companies have voiced concerns that Zimbabwe has not signed the trade and investment protection agreement concluded with South Africa, which makes these companies feel vulnerable to the whims of Zimbabwe's economic policy, especially in so far as it concerns property and nationalisation of assets. Moreover, questions have been raised about the viability of the government's indigenisation policy given the lack of equity in the local market for partners in Zimbabwe to take up stakes in South African-owned or run companies. Nevertheless the big South African companies in Zimbabwe are not panicking over this development. As Edgars Stores Managing Director, Raymond Mlotshwa observes, having put 15% of its holding in an empowerment trust for Zimbabwean staff:

> We're not sure of the full implications of the indigenisation law, but as far as we are aware, all our shareholders who have a substantial percentage are in for the long haul. I therefore don't see or expect any rash decisions from our big shareholders."[70]

Despite the deterioration of the economic situation, many companies believe Zimbabwe is still a better and easier place in which to do business than many other African countries, because of its strong business sector and relatively good infrastructure. Established business links have not been disrupted by the current economic problems, although many companies have preferred to 'ring fence' their Zimbabwe operations by keeping financial operations separate from overall group operations. South African companies have found ways to negotiate Zimbabwe's largely dysfunctional economy in order to maintain a presence there in expectation of eventual political change and economic recovery.[71]

Many companies have been making good profits, even if these have been undermined by inflation and the firms have experienced difficulties in repatriating profits.[72] And some foreign companies have expressed a desire to invest in the Zimbabwean economy. Investor interest has been sparked by the lure of plummeting asset prices and a belief that recovery in the post-Mugabe era will be

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[67] Games, *A Nation in Turmoil,* op cit.
[68] ibid.
[69] ibid.
[70] "Keeping stores ticking on a cash basis", FIN Week, 11 October 2007, p 16.
[71] Ibid.
[72] Interview with a representative of Makro in Harare.

swift. For example BoE, the South African financial services provider, recently hosted an investment fact-finding mission to Zimbabwe in which 65 clients participated. "Zimbabwe has good assets that are trading at huge discounts to replacement value," said a BoE spokesperson. Moreover, the Zimbabwe Stock Exchange also recently hosted a New York fund manager who specialises in investing in distressed economies.[73]

Notwithstanding hyperinflation and a dire lack of foreign currency, Zimbabwe's trade with South Africa has been growing,[74] though this has been an increasing share of a declining market. In spite of a serious economic crisis, Zimbabwe has remained the largest African market for South African goods. According to the South African Revenue Service (SARS), in 2006 South Africa exported R7,3 billion of products to Zimbabwe, while importing R4,5 billion. This compared with R4,79 billion of exports and R3,54 billion of imports in 2000 - a growing trend which defies six years of recession, during which Zimbabwe's economy shrank by more than a third.[75]

Table 2: South African Exports: Rbn

Year	**Zimbabwe**	**Zambia**
2001	5.4	4.9
2002	7.3	5.5
2003	6.5	4.0
2004	5.9	4.7
2005	7.4	5.4
2006	7.3	7.8

Source: SARS

Table 3: South African Imports: Rbn

Year	**Zimbabwe**	**Zambia**
2001	1.4	0.41
2002	2.1	0.75
2003	2.6	0.55
2004	2.8	0.99
2005	3.1	1.3
2006	4.5	1.8

Source: SARS

Even though in 2006 Zimbabwe was dislodged by Zambia as South Africa's top African export destination (See Tables 2 and 3), South Africa has remained Zimbabwe's most important trade partner, providing more than half of Zimbabwe's imports and absorbing a third of its exports. The bulk of South African goods destined for Zimbabwe are minerals, chemicals or manufactured goods like electrical equipment, machinery, appliances and television sets. Other exports include electricity and fuel. In recent years, Zimbabwe has increasingly relied on South Africa for essentials like electricity, fuel and food. This is because supply elsewhere has dried up due to payment reasons. South African companies have been more willing to delay payment dates.[76] In some cases, as Bond and Kapuya note, 'debts to South African companies and other creditors such

[73] Sasha Planting, 'Contrarian heaven,' *Financial Mail*, 27 July 2007.
[74] Mariam Isa, 'Why business is booming,' *Financial Mail* , 30 March 2007.
[75] Ibid.
[76] Interview with a representative of Makro, Harare.

as Eskom have been translated into equity in natural resources concessions…' As the two writers note, in 2003 ABSA sold to the SA company Implats a 29.3% stake it had acquired in Zimbabwe's platinum mining giant, Zimplats. It then arranged for R972 million rand takeover of Zimplats by Implats in January 2006. [77]

In assessing the relations between South Africa's economic interests and its policy of "quiet diplomacy" in Zimbabwe it is difficult to ascribe this policy solely to what Dale McKinley has described as "a renewed South African sub-imperialism."[78] As has been pointed out in an earlier section of this paper, South Africa's policy on Zimbabwe has been driven by a number of other factors. Moreover there have certainly been contested positions on the Zimbabwe crisis within the ANC-SACP-COSATU Alliance in South Africa, with the latter two organisations taking a very critical view of the human and labour rights violations by the Mugabe regime. Moreover while there are certainly overlaps in interest between the SA government and SA business, there may also be tensions between the two over the longer term political trajectory of the SA state, which is being hotly contested within the Alliance itself.

Notwithstanding the above discussion on the broader political issues driving South Africa's policy on Zimbabwe it is also clear that South Africa has seized new economic opportunities from Zimbabwe's precipitous decline. The South African corporate sector has exploited Zimbabwe's collapsing economy to bolster its bottom lines. A number of companies – notably Implats, Metallon, PPC, Old Mutual, Stanbic, ABSA and SABMiller – have either invested or expanded their investments in Zimbabwe. South Africa has also gained from the influx of Zimbabwean skills, particularly in management and professional and technical areas – doctors, engineers, bankers, nurses, academics, information technology specialists and teachers.[79] The considerable extent of South Africa's economic expansion into Zimbabwe is underlined by the fact that South Africa's share of Zimbabwe's imports now exceeds 50% - more than double its levels a decade ago. Moreover in 2005 and 2006 Zimbabwe's import bill from South Africa was US$1.176bn and US$1.094bn respectively, while Zimbabwe exports to South Africa in 2005 and 2006 US$492m and US$684m. [80] Whereas Zimbabwe was previously regarded as a formidable competitor in the Southern African region, it is today not considered a serious regional economic player.[81] As leading Zimbabwean economist Tony Hawkins has stated regarding the benefits of the Zimbabwean crisis to South Africa:

> South Africa has gained market share in exports, tourism and services. SA's share of investment in Zimbabwe has also risen as there has been an element of bargain basement buying by some mining and industrial groups. SA is also taking significant skills from the country, especially scarce black skills in health, education, banking engineering and IT. It would be too much to say that SA has benefited in net terms, but there is a good deal of evidence to suggest that it is securing some gains from the crisis.[82]

A more recent analysis by Shawn Hattingh on South Africa-Zimbabwe relations is much less ambiguous in its characterisation of this relationship. Noting that as South Africa mainly exports manufactured goods to Zimbabwe, while it imports raw materials, Hattingh writes that the "pattern

[77] Patrick Bond and Tapera Kapuya, "Arrogant, disrespectful, aloof and careless: South African corporations in Africa." (Unpub mimeo 2005.)
[78] Mckinley D. 2003. 'Commodifying oppression: South African foreign policy towards Zimbabwe under Mbeki.' See also Patrick Bond "Zimbabwe, South Africa, and the Power Politics of Bourgeois Democracy," Monthly Review, Vol 54, No 1, 2002.
[79] See International Organisation for Migration, "The Development Potential for Zimbabweans in the Diaspora", Geneva, 2005.
[80] Mabasa Sasa "The Truth about Zimbabwe-South Africa Relations." New African, No 465, August/ September 2007.
[81] Interview with a representative of Business Unity South Africa, Sandton, Johannesburg.
[82] Quoted in Bond and Kapuya op cit.

of trade between South Africa and Zimbabwe replicates the type of trade between an industrialised country and a developing country." Moreover on the basis of some very telling evidence on South Africa's recent business dealings with Zimbabwe, Hattingh concludes:

> Through the combination of trade and loans, Zimbabwe is being effectively drained. Money is flowing out of Zimbabwe to buy imports, such as fuel, electricity and maize from South African companies and the state. To raise this money, in many instances, Zimbabwe is borrowing from South African banks. It has to pay back these loans at high interest rates... which is very profitable for the banks. If it fails to do so, these companies will take ownership of the assets that the Zimbabwe government has offered as collateral." [83]

Over the past decade South Africa has emerged as a key economic actor on the African continent. South Africa has also become the largest foreign investor in Southern Africa. Exploiting their relative competitive advantages – abundant investible capital, marketing and technological know-how, advanced public infrastructure, and human resources – South African companies have used the global push for economic liberalisation and deregulation to exploit business opportunities in Africa. South African direct investment in the SADC countries exceeded US$5.4 billion by 2000. In 2001, South African investment in the region amounted to R14.8 billion, followed by that of the United Kingdom at R3.98 billion.[84]

In addition, the northward expansion of South African firms has been actively encouraged by several African leaders who see the country 'as the continent's last best economic hope' The country's penetration of the African market has also been bolstered by the decision of scores of international companies to use South Africa as a launch pad for their operations into the continent. Moreover, in recent years South Africa's investment and trade foray into Africa has been spurred by the country's championing of the NEPAD, an undertaking by African leaders to eliminate poor governance, corruption and conflicts in their countries in return for increased aid, private investment and a reduction of trade barriers by developed nations.[85]

As part of South Africa's commitment to achieving these objectives, the South African Reserve Bank decided in November 2002 to ease capital controls – it increased with immediate effect the limit from US$79 million to US$216 million – on domestic companies wishing to invest in other African countries or seeking to grow existing operations. The limit was increased further in 2003 to US$331 million per project for investment in Africa and US$165 million per project for investment outside of Africa.[86]

Notwithstanding the marked increase in bilateral trade as a consequence of the growth of South African exports to the region, there has been a great deal of criticism among some SADC countries of this export expansion's failure to translate into meaningful linkages with domestic economies. Critics have warned against the '"South Africanisation" of the regional economy. And there is evidence that in some cases South Africa's dominance of regional exports "has led not only to domination of local businesses, but has also placed local manufacturing capacity under pressure."[87]

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[83] Shawn Hattingh, "South Africa and Zimbabwe: the vultures have descended". Centre for Civil Society, University of Kwa-Zulu Natal, October 2007.
[84] See Games D. 2003. *The Experience of South African Firms Doing Business in Africa – A Preliminary Survey and Analysis*, South African Institute of International Affairs, Braamfontein: SAIIA.
[85] Alden C and Soko M. 2005. 'South Africa's economic relations,' op cit.
[86] ibid.
[87] ibid.

6. The commonalities and tensions between the South African government and the South African private sector on the Zimbabwe crisis

In broad terms, the business sector in South Africa has supported the South African government's policy of 'quiet diplomacy' towards Zimbabwe. Organised South African business, represented by Business Unity South Africa (BUSA) and Business Leadership South Africa, recognises the intractability and multi-dimensional nature of the Zimbabwe crisis and has backed the government's efforts to bring about a peaceful resolution of the political stalemate in the country.[88]

However, like COSATU and the SACP it wants the government to take a much tougher line and speak out more forcefully about the breakdown of the rule of law, human rights abuses, and economic chaos in Zimbabwe. In meetings with President Mbeki and some members of his Cabinet, the South African business sector has urged the South African government to impress upon its Zimbabwe counterpart to respect the rule of law and restore order in the country.[89] It supports constructive engagement and has urged the government to discuss Zimbabwe's economic crisis with business to seek solutions, because of the negative effect Zimbabwe's problems were having on South Africa. To this end, BUSA is planning to send a high-level delegation to Zimbabwe to "engage with business and other key role players" in the country.[90]

Like the South African government, organised business believes South Africa's model of conflict resolution could be successfully exported to Zimbabwe. As BUSA chief executive Jerry Vilakazi stated: "Our experience in South Africa has taught us that constructive dialogue is key to resolving political problems of this nature and to building an inclusive, stable and peaceful society." As such, the business sector has urged the South African government to escalate its mediation between the Zimbabwean government and the leaders of the opposition.[91]

There is a great deal of apprehension in South African business circles about the consequences of Mugabe's economic policies, especially the recent imposition of price controls on basic commodities, namely Operation "Reduce Prices" undertaken by the Zimbabwean government in June 2007. Given that some of its constituent members – such as Edgars and Makro – were affected by the introduction of price cuts, the business community wants to play a more proactive role in finding workable solutions to Zimbabwe's problems.[92]

Critics of price controls have described them as a political gimmick designed to shore up ZANU PF's support base and stifle dissent against a deepening socio-economic crisis in Zimbabwe. Price controls have had harmful effects on the Zimbabwean economy, including: shortages of essential basic commodities on the formal market; a flourishing parallel market for basic commodities where the price far exceeds the controlled price; production of lower quality products as producers are forced to 'shave inputs' in order to maintain profit margins; and loss of employment opportunities as companies downsize production capacity because of problems caused by unsustainable price control levels. In its description of Operation Reduce Prices, the research wing of the ZCTU, the Labour and Development Research Institute of Zimbabwe (Ledriz), characterised this operation in the following terms:

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[88] Interview with a representative of Business Unity South Africa, Sandton, Johannesburg.
[89] Interview with a representative of Business Leadership South Africa, Parktown, Johannesburg.
[90] ibid.
[91] ibid.
[92] Interview with a representative of Makro

> As was the case with Operation Murambatsvina of 2005, the crackdown on business was driven by the need to prevent possible social unrest owing to the deteriorating socio-economic situation. The clampdown which came just after predictions by the outgoing US Ambassador Christopher Dell that inflation would reach 1,500,000 by the end of the year leading to the collapse of government was driven by the Joint Operations Command (JOC). JOC is made up of the Zimbabwe Defence Forces, the Central Intelligence Organisation, the Zimbabwe Prison Service and the Zimbabwe Republic Police. It is chaired by the Minister of State security in the President's office, Didymus Mutasa. [93]

Moreover, South African business is concerned about the lack of clarity and precision on several aspects of the indigenisation legislation that the Zimbabwean government has introduced in order to cede 51% of company stakes to black Zimbabweans. In response to indigenisation pressures, Old Mutual recently announced it would sell up to 20% of its Zimbabwean business to staff to comply with impending legislation requiring all companies operating in Zimbabwe to be 51% owned by black investors. On the open market, 20% of the shares would cost well over Z$300 trillion at Old Mutual's current share price of around Z$400,000.[94] A representative of Old Mutual South Africa stated that although Zimbabwe's contribution to the group's profits was no longer significant, there was no plan to withdraw from the local market. "That business is not generating good returns for Old Mutual South Africa any longer. But there is no point in pulling out of that business, even though conditions are extremely difficult."[95]

Although the indigenisation legislation is directed at all economic sectors, the Harare government's top priority is the mining industry. In particular, given that platinum exports have been the government's key source of foreign currency this has made companies such as Implats vulnerable. Implats is committed to an expansion programme costing US$258m at its subsidiary, Zimplats, and 49% of Implats' total attributable reserves and resources are located in Zimbabwe. Implats has ceded some of its mineral rights held in its Zimplats operations to the Zimbabwe government and believes that this will go a long towards enabling the company to fulfil the government's indigenisation policy objectives. As Implats CEO David Brown put it: "The agreement with the Zimbabwe government took into account expenditure by Zimplats on essential infrastructure such as roads and housing and corporate social investment programmes. As a result we estimate that the remaining indigenous ownership required at Zimplats to meet the 51% target is about 15%."[96] In addition other players in the mining sector continue to find ways to profit in Zimbabwe in the context of the crisis. As Greg Hunter CEO of Central African Gold says:

> Zim is looking all right. Concessions have been announced for the mining industry. We can pay staff in foreign currency, there's compensation offered for boreholes and the fiscal side of the country is looking pretty smart.[97]

With such partners in the mining sector the Zimbabwean elite is extending its influence in this area. As Richard Saunders observes:

> In many ways, the experience in the mining sector closely reflects the trajectory of the broader political and economic crisis in the past fifteen years: Fuelled by questions of political conflict and factional competition, exploited by opportunistic foreign economic interests and impacting negatively on state institutions and the rule of law, both crises have

[93] 'Operation reduce prices, a political (electioneering) gimmick' briefing note Ledriz, September 2007.
[94] 'Zimbabwe: Old Mutual to sell 20 pc stake to its employees,' *The Herald*, 30 August 2007.
[95] Interview with a representative of Old Mutual South Africa, Harare.
[96] See Tony Hawkins, 'No way round threat,' *Financial Mail*, 17 August 2007.
[97] "The madness of King Bob" Fin Week, 11th October 2007.

resulted in the accelerated poverty and marginalisation of workers, poor Zimbabweans and ordinary communities.[98]

Given the growing influence of South African business in Zimbabwe, heightened by its exploitation of the business opportunities thrown up by the crisis in the country, it is clear that this sector supports the current mediation process, though perhaps more out for concern for normalising its accumulation strategies in the country, than for a broader process of political democratisation.

7. Summary of main findings

A number of key insights and findings can be gleaned from this study. First, South Africa's policy towards Zimbabwe is extremely unlikely to change under the Mbeki presidency. Mbeki's refusal to consider an alternative policy to 'constructive engagement' is rooted in several important considerations, including: a desire to shed South Africa's 'Big Brother' image; a preference for multilateral, not unilateral, approaches to conflict resolution; a belief in African solutions by Africans; a quest to cement South Africa's African identity; a sensitivity to domestic black opinion; a refusal to interfere in the internal affairs of another sovereign state; and constraints imposed by the challenge to South Africa's leadership by other regional states. These are salient factors that Mbeki's successor would have to weigh carefully before deciding on his/her policy approach to Zimbabwe.

Second, despite or even because of Zimbabwe's political and economic problems, trade and investment ties between South Africa and Zimbabwe remain very strong. For all its problems, Zimbabwe remains South Africa's most important trading partner in Africa. And the strong economic ties between the two countries are poised to continue into the future; South African companies are unlikely to pull out of Zimbabwe because of that country's internal crisis. Many South African firms believe Zimbabwe is still a better and easier place in which to do business than many other African countries, and they have found ways to navigate through Zimbabwe's largely dysfunctional economy in the expectation of eventual political change and economic recovery.

Third while South Africa's policy of "quiet diplomacy" cannot be said to be solely driven by economic considerations there are strong indications that South African business has not been slow in taking up the economic opportunities thrown up by the Zimbabwean crisis.

Appendix A

South African and Zimbabwean Trade by Commodity

South African Imports from Zimbabwe by Commodity			
Commodity	**Value of Goods, 2005 (R000)**	**Value of Goods, 2004 (R000)**	**Value of Goods, 2003 (R000)**
Mineral products	1,516,779	1,262,243	1,087,311
Base metals	601,619	317,377	325,074
Wood & articles of wood	150,773	146,663	152,283
Textiles	277,345	530,702	354,027
Prepared foodstuffs,	186,809	185,373	280,099

[98] Richard Saunders, "Briefing Note: Mining and Crisis in Zimbabwe." Fatal Transactions/NIZA, June 2007.

beverages			
Miscellaneous manufactured articles	80,840	61,741	66,240
Machinery & mechanical appliances	79,203	46,508	73,999
Vegetable products	71,532	73,402	71,211
Other unclassified goods	21,577	28,354	31,483
Articles of stone, plaster & cement	27,141	25,164	43,773
Raw hides & skins & leather	29,674	28,163	34,956
Pulp of wood	15,655	13,769	30,910
Vehicles, aircraft & vessels	18,961	18,290	26,235
Plastics	7,955	11,858	7,824
Footwear, headgear & umbrellas	17,462	18,389	20,233
Chemicals	13,699	15,163	36,271
Natural or cultured pearls	4,490	4,335	2,566
Live animals; animal products	6,546	5,135	8,500
Optical, photographic equipment	1,655	1,865	1,769
Works of art, collectors' pieces	1,372	1,121	1,050
TOTAL	**3,131,518**	**2,795,783**	**2,656,012**

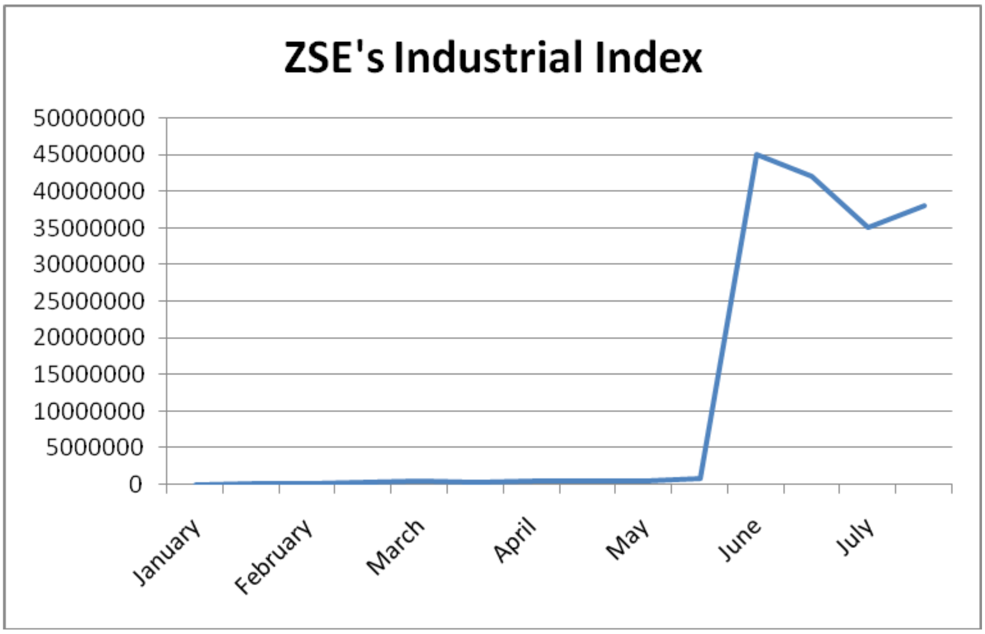
Source: South African Department of Trade and Industry, 2006

South African Exports from Zimbabwe by Commodity			
Commodity	**Value of Goods, 2005 (R000)**	**Value of Goods, 2004 (R000)**	**Value of Goods, 2003 (R000)**
Vegetable products	1,665,436	494,472	837,377
Mineral products	1,198,137	1,551,739	921,843
Chemical products	1,087,538	904,915	989,023
Machinery & mechanical appliances	1,049,356	961,689	973,844
Plastics; rubber	572,528	504,829	513,125
Base metals	557,200	527,736	643,692
Vehicles, aircraft & vessels	442,847	416,911	726,797
Pulp of wood	269,763	205,698	226,211
Prepared foodstuffs; beverages	128,115	128,962	201,669
Articles of stone, plaster & cement	80,554	82,992	118,670
Textiles	165,692	164,473	152,979
Animal or vegetable fats	76,060	55,409	48,154
Optical, photographic items	71,299	83,812	69,952
Miscellaneous manufactured articles	33,342	23,274	28,387
Wood; wood charcoal	24,074	18,588	23,942
Footwear, headgear	14,273	10,880	16,306
Other unclassified goods	12,596	2,998	2,371
Live animals; animal products	33,690	35,639	36,729
Raw hides & skins	3,569	5,067	5,766
Arms & ammunition	128	208	369
Natural or cultured pearls	380	536	2,132
Works of art, collectors' pieces	141	50	160
TOTAL	**7,486,859**	**6,182,317**	**2,656,012**

Source: South African Department of Trade & Industry, 2006

Appendix B.

Zimbabwe Stock Exchange's Industrial Index



Source: I-Net Bridge

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Photos 12 and 13: urban residents in Zimbabwe struggle for daily survival in an economy with 8,000% inflation, collapsing services and little formal employment. Here, people queue for water in Bulawayo; and walk to work in their thousands to save money. October 2007.

Zimbabweans board the deportation train in Johannesburg: over 100,000 Zimbabweans are deported annually from South Africa. An estimated 25% of Zimbabweans are in the Diaspora, mostly in South Africa.