

Economic repercussions of the Look East Policy in Zimbabwe

In 2003, Zimbabwe formally announced the Look East Policy (LEP) in the face of economic sanctions by the West. This, coupled with the Forum on China Africa Cooperation (FOCAC) of 2000, has strengthened trade and bi-lateral investments between Zimbabwe and China. China is increasingly involved in Zimbabwe's agriculture, mining, construction and tourism industries. There is also an influx of Chinese entrepreneurs in Zimbabwe's retail industry. The repercussions of the LEP have been mixed. In this policy brief, we critically engage with three sectors: agriculture, mining and the informal sector; in order to provide an overview of the effects that LEP has had on Zimbabwe focusing on the period 2010-2016. We also propound some recommendations for more positive outcomes in the future.

Background

Zimbabwe's LEP includes closer ties with Indonesia, India, Iran, Malaysia, North Korea, but China stands out as the major ally. Owing to the long-standing relationship between China and Zimbabwe, the latter speaks glowingly of China as an "all weather friend" (Scoones, 2016). When the Chinese head of state Xi Jinping visited Harare in 2015, he summed up the relationship as a special one that had withstood the test of time. It is in light of such an evolving and strengthening relationship that China represents Zimbabwe's biggest foreign investor after the African country's estrangement from the West, arguably caused by the West's disapproval of Zimbabwe's human rights record, flagrant corruption as well as Zimbabwe's accusations of the West (particularly the United Kingdom) trying to colonise and invade Zimbabwe yet again. In 2013 alone, China contributed over US\$ 600 million (Sun, 2016); while between January and November 2015, China further contributed at least US\$ 46.5 million in FDI (Sunday News Online, 2016). In addition, in December 2015 while on a two-day state visit, President Xi said China would provide Zimbabwe with a US\$ 1.2 billion loan to rehabilitate and expand Zimbabwe's coal-fired Hwange power plan.

In the same vein, it is significant to note that China-Zimbabwe relations include diplomatic support, socio-cultural ties, economic, trade and technical cooperation and close military ties. Over the past decade, China has offered loans, aid,

concessions, grants, expertise, technical and hands-on assistance in agriculture, mining, agro-processing, bio-fuels, telecommunications, water and sanitation, energy and in infrastructure development. To date, China has funded notable projects including the construction of a national defence college, the Harare Water Treatment Project and expansion of the Kariba Hydro Power Station among other major projects. This has benefited both countries economically and diplomatically, with Zimbabwe also offering diplomatic support in various international forums, as well as the provision of much needed natural resources (including gold, diamonds, platinum, chrome and nickel).

Through a gesture of deepening co-operation between Beijing and Harare, Zimbabwe's Finance Minister Patrick Chinamasa added the yuan to the Zimbabwean multi-currency regime. Since the deterioration of the Zimbabwean economy in 2008, which was punctuated with hyper-inflation coupled with cash shortages, Harare opted for the use of the Botswana pula, South African rand, Australian dollar, US dollar, Chinese yuan and the euro. This move was aimed at easing the challenge of cash shortages. Analysts, however, note that the adoption of the yuan by Harare was a reciprocal gesture of gratitude to Beijing, after the latter agreed to write off the former's debt, which hovered at around US\$ 40 million (Ramani, 2016).

China-Zimbabwe trade and bi-lateral investments (2010-2016)

There has been an increase in bi-lateral investments and trade during the period 2010-2016. In 2010, the two nations celebrated 30 years of relations and over US\$ 560 million in bi-lateral trade (Thompson, 2012). During a two-day state visit to Zimbabwe in December 2015, Xi Jinping struck a series of mega deals in the energy, telecommunications and infrastructure sectors with Robert Mugabe (however, despite speaking glowingly about these deals, they are yet to materialise as to date). In a follow-up to the 2015 visit, there has been a steady rise in the bi-lateral trade between Harare and Beijing. For instance, in 2016, Xi upped the FDI to US\$ 4 billion from a previous low of US\$ 500 million in 2015 (Chung, 2016). In a context where there is little in terms of external support besides from China, this is seen as significant support that has kept the country afloat in the wake of a near economic collapse.

Agriculture

The Zimbabwean agriculture industry has benefitted a great deal, particularly the tobacco farming sector. The entry of the Chinese firm Tian Ze, into the Zimbabwean tobacco industry, has transformed that sector. Tian Ze first entered the market in 2005 and immediately increased the price for tobacco from a meagre US\$ 1.61 to US\$ 3.32/kg. This significantly helped the viability of over 8,000 growers with over a million dependents (Mutenga, 2014). Tian Ze's 2014 average price for auction floor buys stood at 55.3 per cent higher than the national average price. In return, Zimbabwe has also benefited through acquiring agricultural and irrigation equipment from China, including tractors. This has helped in revolutionising and modernising Zimbabwe's agriculture. Additionally, Debont Co. Ltd, a Chinese agricultural company, is currently running Zimbabwe's Gwebi Agricultural Demonstration Centre (FOCAC, 2016). Debont signed an agreement with Zimbabwe's Ministry of Agriculture in January, through which they will partner 8 agricultural colleges for the expansion of the demonstration centre. Approximately 10,000 farmers are expected to be trained to use the farming facilities provided by Debont. The facilities include solar powered irrigation systems to cope against adverse weather patterns (FOCAC, 2016).

Mining

The involvement of China in Zimbabwe's mining industry has had negative repercussions. China, with the help of the Zimbabwean government, has played a significant role in depleting Zimbabwe's mineral wealth such as diamonds from the eastern part of the country, where local diamond miners were forcefully removed to make room for Chinese companies, resulting in little benefits (if any at all) for the locals. The case of the Chiadzwa diamonds is one classic example. Chinese mining

companies *e.g.* Anjin investments (a joint venture between Chinese Anhui Foreign Economic Construction Company (Afec) and Matt Bronze who represents government interests in the company on a 50-50 shareholding basis) employ local people in the Marange community. Working conditions have been reported as deplorable, including poor remuneration, physical abuse and lack of protective clothing (My Zimbabwe, 2016).

Chinese companies have failed to adhere to the principles of good corporate social responsibility to the extent that the local community was left economically worse off than it was before the discovery of diamonds, followed by the subsequent entry of Chinese companies in the diamond extraction. Local diamond interests coupled with recent outbursts by President Mugabe accusing Chinese mining companies of siphoning diamond money and not banking with local Zimbabwean banks, are pressuring Chinese diamond companies to surrender more of their market share to local companies. In 2016, a total of US\$ 15 billion was reported as 'lost' by Zimbabwe in the mining sector (The Standard, 2016). This however, is not to be solely blamed on the Chinese. The diamond mining sector has traditionally been shrouded in obscurity from ordinary citizens. For instance, the finance ministry expected to receive US\$ 600 million from the diamond industry but only received US\$ 43 million (Global Witness, 2014). As such, China's presence in Zimbabwe has not meaningfully improved the livelihoods of the ordinary Zimbabwean.

In April 2016, Zimbabwe effected an indigenisation law requiring foreign companies with over US\$ 500,000 in assets to transfer or sell 51 per cent of their stake to indigenous Zimbabweans (Sun, 2016). Initially, Chinese companies were exempted from the indigenisation policy when it was launched in 2008 (Ramani, 2016). Under the indigenisation, Chinese mining companies are now required to operate under the Zimbabwe Consolidated Diamond Company. In 2015, Anjin appealed to the supreme court to challenge the legality of the such monopoly. As such, the passing of into law of the 51 per cent stake requirement has strained relations between Harare and Beijing. The Zimbabwean government argues they are not getting enough revenue from Chinese companies while the Chinese companies loathe the monopoly created by the indigenisation policy.

Tourism

The tourism industry is one of the sectors in which Sino-Zimbabwe relations have thrived. The Zimbabwe Tourism Authority (ZTA) claims that the first quarter of 2016 recorded a 107 per cent increase to 4,043 Chinese tourists from a 2015 figure of 1,952 (Xinhua, 2016). The ZTA report cites China as the second biggest tourist source market after Japan whose visitors figure during the same period stood at 4,303 (Xinhua, 2016). Zimbabwe seeks to further cement this relationship as a

China friendly destination by hosting the first ever China-Africa Tourism Conference in 2017. The conference will be hosted by the ZTA in collaboration with the Chinese Friendly International, a Chinese think-tank ([Zimbabwe Tourism, 2016](#)).

The move by the ZTA is key as it comes at a time when Chinese arrivals have been in decline in the country. The number of Chinese tourists in Zimbabwe fluctuated in the past three years. The government of Zimbabwe has responded to the decline by scrapping visa requirements for Chinese tourists. In 2015, a 46 per cent decline resulted in 6,925 arrivals, in sharp contrast to 12,927 arrivals in 2014. The 2015 arrivals fall short of the 2011 figure, which stood at 30,549 Chinese arrivals ([Zimbabwe Tourism, 2016](#)). However, due to the scrapping of visa requirements for Chinese citizens has as previously mentioned resulted in a steady increase of Chinese tourists in 2016. These developments come at a time when other African countries (South Africa, Egypt, Angola, Tanzania and Kenya) are benefitting from a consistent destination promotion through a visible market presence in China. These African countries continue to record significant increase in arrivals from the Chinese market.

Construction

Zimbabwe's construction sector has witnessed an increased presence of Chinese firms especially since the country's liquidity crunch. In August 2016, China pledged US\$ 46 billion towards the construction of a new Zimbabwean parliament ([Ramani, 2016](#)). The pledge for the construction of a new parliament follows a recent string of business contracts between Harare and Beijing. Subsequent to the contracts, China has opened its markets to Zimbabwean farm products, expanded its investments in Zimbabwe's housing and agriculture sectors, and lent Zimbabwe money to upgrade its medical equipment in inner-city hospitals. Chinese contractors serve as an anchor for the country's construction sector. The National Defence College, Long Cheng Plaza in Belvedere and the National Sports Stadium are among the major projects completed by Chinese companies ([Zimbabwe Situation, 2013](#)). The construction, however, has been carried out with little to no local sector participation at all.

Additionally, there are incidents of Chinese companies with questionable credentials getting tenders from the Zimbabwean government. For instance, China Harbour Engineering Company LTD (CHEC) was recently awarded a US\$ 2 billion tender for the dualisation of the Chirundu-Beit bridge road project; yet the company is currently blacklisted by the World Bank for fraud and corruption. Their financier specialises in military work, not construction work. CHEC has also attracted controversy in Uganda and other countries for shady deals ([Moyo, 2016](#)). The Zimbabwean government is at fault as they have the responsibility of awarding construction tenders.

China in Zimbabwe's informal economy context: impact on local informal entrepreneurs

Since the turn of the millennium, a combination of factors, which include Zimbabwe's economic policies coupled with acrimonious relations between the government and the West, have resulted in an unprecedented economic meltdown in this Southern African country. For instance, in June 2008, the inflation rate stood at 11.2 million per cent a year, while in July of the same year the figures rose to a figure twenty times higher ([Berger, 2008](#)). This rapid rise in inflation was accompanied by high unemployment rates and a manifestation of the informal economy as the immediate safety net for most urban households, due to the closure of most private companies and industries.

As of 2013, 3.7 million Zimbabweans were involved in the informal sector, with females accounting for 54.6 per cent of that figure ([Bulawayo, 2013](#)). As such, the informal sector has become a safe haven, a means of wealth creation and livelihood construction for the average Zimbabwean, most notably through vending, including the buying and selling of fruits, vegetables, clothing and foreign currency dealing.

Suffice to say, while the government has unreservedly praised its ties with China, very little has trickled down to the general Zimbabwean populace. Local Zimbabweans view the Chinese with scepticism and they perceive the latter as bringing no benefits other than to themselves and the government. However, this claim is not entirely true, as Zimbabwe has benefited from imports in agricultural machinery (tractors), electrical, leather, shoes, clothing and textile, engine, telecommunications, household appliances and kitchenware among other goods.

In the wake of such huge volumes of imports from China, local Zimbabwean investors and ordinary citizens complain of China dumping cheap, sub-standard commodities into local markets, resulting in derogatory terms being coined to describe these goods, the most prominent of which is 'zhing-zhong' ([Thompson, 2012](#)). This has posed stiff competition among the local infant industries in Zimbabwe with the Chinese. However, given the fact that the Chinese sell their products cheaply, the local Zimbabwean industry has suffered inasmuch as it has failed to compete and survive under such a business climate.

Despite these criticisms, credit is due to the Chinese for helping the Zimbabwean people through the worst of the political crisis through the provision of affordable goods ([Brautigam, 2012](#)). Chinese business companies brought cheap goods and bailed out poor locals against skyrocketing inflation ([Shelton and Kabemba, 2012](#)).

Conclusion

It is likely that Zimbabwe will continue its strong relationship with China. This is notwithstanding, the fact that it is China that stands to benefit more from interaction with Zimbabwe in terms of natural resource wealth extraction and trade, as compared to the little financial aid being poured into Zimbabwe by Beijing. The involvement of Sino-Zimbabwe relations will however, remain a matter of strategic interests at play. In this regard, it is noteworthy to highlight that the Chinese government has of late been reluctant to commit to financial investment given the political climate in the country. The recent introduction of the Indigenisation policy in Zimbabwe has also negatively affected Chinese companies particularly in the mining industry.

Recommendations

- In South-South cooperation, China has the upper hand, as it tends to be ahead of African countries in terms of technological capacities. Chinese investments are necessary but the areas of capital injection seem to be in the extractive industries (agriculture and mining), which have seen more export of raw materials than value-added products (Berhe and Liu eds., 2013). The disadvantage is that raw materials are cheaper than the 'value added' products that China in turn sells back to Zimbabwe and Africa in general. In order for Zimbabwe to benefit more substantially, it needs to increase its exporting capacity, with China backing it up. The focus on primary raw materials derails Zimbabwe's comparative advantage and reproduces the same relationship of dependency that the country has had before with the West. The Government of Zimbabwe should negotiate with China so that it transfers technology and imparts skills to the country to avoid perpetual dependency, while at the same time limiting Chinese involvement to those industries in which locals lack expertise and technical knowhow.
- Industries where locals can engage, such as the case of small-scale gold mining, should be reserved for locals. Stakeholder consultation may also help common Zimbabweans who may have business interests in China. For now, it appears the LEP and Zimbabwe's engagement with China is an 'elite reserve' to the detriment of local livelihoods. Participation of locals in decision making regarding Zimbabwe's engagement with China could go a long way in helping local entrepreneurs benefit from the relationship.
- Zimbabwean entrepreneurs and investors should

reciprocally invest in China in order to create a more balanced form of engagement. There is need for measures/policies that will promote a significant market presence for Zimbabwean entrepreneurs in China, in order for the China-Zimbabwe to be a win-win one that also benefits ordinary Zimbabweans.

- In order to avoid overreliance on China, Zimbabwe should take a cue from the Chinese themselves, who have a vast network of markets and trade relations including the West. In light of this, Zimbabwe should reconsider its lack of engagement with the West. In fact, Zimbabwe should not only look East nor West but should look everywhere.

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