



The Failing State of Zimbabwe

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Amid the harsh economic times that global markets are experiencing, the word ‘economy’ has come to be closely associated with concepts of money. What is often forgotten is that the science of economics is a much broader field that encompasses how scarce resources are disbursed throughout a population. This differentiation is important when looking at the current global economic crisis because giving more money to certain countries will not necessarily put that country in a better economic position. These countries suffer from certain inefficiencies that are embedded in their infrastructure.

This article will take a close look at the current economic conditions in Zimbabwe and reason why their economy is on the brink of failure. It will break down the fundamental problems stemming from the agricultural industry, hyperinflation, and the health care system to show how each problem is affecting the overall economy. It is important to emphasize that Zimbabwe is not just a country that is experiencing a normal recession amid a global economic crisis. It is a country with severe market inefficiencies that has been in a recession for the past 10 years¹.

Agriculture

The foundation for any economy is the ability to support itself by utilizing its natural resources, usually from the agricultural sector. If a country cannot supply itself, or

trade for food, then there is no need for gold or electronics. According to the World Health Organization, about half of Zimbabwe is starving to death² due to the failing agricultural sector.

Prior to 2000, agriculture was the backbone of Zimbabwe’s economy, but there was a scarcity of useful farming land and a great disparity between the quality of land owned by black and white Zimbabwean farmers. White Zimbabweans had controlled a majority of the arable land (which only accounts for 8.24 percent of the total land in Zimbabwe³) since Zimbabwe was colonized by Britain. The land was used for both private and commercial purposes, but the commercial sector was a huge proponent to Zimbabwe’s agricultural stability. Black Zimbabwean farmers, however, were living on land that was arid and infertile. Because of the social and economic inequalities, the Zimbabwean Government was faced with growing discontent amongst the population.

Beginning in 2000, President Mugabe instituted the Land Acquisition Act, which was supposed to remove thousands of white Zimbabwean farmers from their lands so that it could be redistributed and given to black farmers. The plan was supported by Kofi Annan, then the U.N. Secretary-General, who voiced his agreement by saying, “the equitable distribution of productive capital, such as land, is not only economically important, but also essential to ensure peace and stability”⁴.



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There were numerous problems with Mugabe's land reform. First, it was never properly funded. The plan called for every removed farmer to receive a 'fair compensation' for his property, but the government was never able to produce the capital required. As delays ensued, many black Zimbabwean farmers began to feel as if their government had lied to them.

A second problem arose in 2001 when the government amended the Land Acquisition Act so that white farmers would be immediately forced from their lands. As white farmers began to oppose the new legislation, black farmers started to take matters into their own hands, resulting in an outbreak of violence. The police were not able to stop the outbreak of violence in which dozens of white farmers were beaten and murdered.

A third problem stemming from the Land Acquisition Act was that the government replaced a class of knowledgeable workers with a group of farmers with far less experience without implementing a system to maintain agricultural production. The new farmers, who now controlled the more fertile land, did not have the knowledge to produce the same levels of output as the white farmers had. The relocated white farmers, however, quickly learned that their skills and knowledge, which worked on fertile land, yielded poor crops on the barrens lands to which they were relocated.

Mugabe's Land Acquisition Act only amplified a food shortage crisis that is still one of Zimbabwe's most prevalent problems. The World Food Program of the United Nations recently reported that seven million people (about half of the population) in Zimbabwe would require food handouts during the first half of 2009, although funding problems are forcing them to make drastic cutbacks². If Zimbabwe cannot provide itself the basic elements of survival, such as clean water and food, there is very little prospect of any economic development.

Hyperinflation

The currency in Zimbabwe has been experiencing a rapid decline in value for the past eight years. Because of the hyperinflation, the largest denomination of the former Zimbabwean dollars was not able to buy a loaf of bread. Earlier this month, the Reserve Bank of Zimbabwe

(RBZ) announced that the high inflation rate (of 231 million percent) has forced the bank to remove 12 zeros from its paperbacks.

Over the past decade, Zimbabwe has accrued the largest public debt in the world, amounting to 240 percent of their GDP⁶. As the deficit has grown, the government has been paying it off by continually printing out money, leading to an exponentially increasing inflation rate. Since 1995, the inflation rate in Zimbabwe has risen annually from 22.5 percent, to 58.5 percent in 2000, to 6,723.7 percent in 2007, to 231 million percent in July of 2008⁶. The only other instance of this level of hyperinflation was the Hungarian currency in 1946.

In any economy, as you print more dollars, the value of each dollar decreases resulting in inflation. An inflation rate of 240 million percent means that the price of goods doubles at least once a day. The hyperinflation that Zimbabwe is currently experiencing is crippling the economy. Money has three functions; to act as a store of value, a medium of exchange, and a unit of account. Hyperinflation negates these functions.

The Zimbabwean dollar has lost its aspect of being a store of value because the value of any biodegradable good will decrease slower than the value of the money that was used to buy that good. If you are a farmer, you are better off holding on to your goods than exchanging them for money. The currency cannot serve as a medium of exchange because businesses are refusing to use it, favoring foreign currencies instead. Lastly, the currency cannot serve as a unit of account because it cannot properly measure the value of the goods in the market; they are changing too rapidly.

Until recently, businesses had to receive permission from the government to make transactions in foreign currencies. Earlier this year, Parliament had opened the use of foreign currency to all businesses. The reaction to this has been an exile of the domestic currency by domestic businesses.

What has been even more problematic is that the government, which is the country's biggest employer, has been paying its workers in Zimbabwean dollars⁷. If local businesses are keeping prices relatively stable by using foreign currencies, then hyperinflation is essentially reducing the pay that each worker gets by half



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every day. Teachers in the capital city of Harare can no longer afford to pay for public transportation to and from work⁸.

Trade unions, such as the Zimbabwe Congress of Trade Unions, have been pushing for the government to pay its civil servants in foreign currency so that the government's infrastructure does not completely collapse. Numerous teachers, doctors, and policemen have opted to strike, claiming that it was more expensive to work than to not work. Newly inaugurated Prime Minister Morgan Tsvangirai, recently announced that the government will start to pay its civil servants by the end of the month⁹.

Health Conditions

The failure of the agricultural sector has been attributed to falling trade. Because the government cannot generate the revenue needed to support its infrastructure, the practice of printing out money to pay off the deficit has left the entire economy broken. Evidence of the economic distress is evident by looking at the health conditions in Zimbabwe.

Zimbabwe currently has a fairly high birth rate of 3.72 children born per woman⁷, but the country is still experiencing negative population growth because the people are dying just as fast as they are being born. One of the major reasons why Zimbabwe has such a high death rate (the 13th highest in the world) is because the health care system has completely broken down. Almost 25 percent (or 1,800,000 people) of the total population is infected with either HIV or AIDS and 170,000 of those people will die each year⁷. Zimbabwe is also battling a cholera epidemic that has killed almost 4,000 people since August and has infected another 65,000. The WTO expects that 100,000 people will be infected before the disease is contained.

Health conditions are directly related to the poor economy. If a nation is facing severe health problems, as Zimbabwe is, then there is a double-edge sword that cuts away the promise of any economic achievement. On one side, the economy is impaired because sick workers are not able to work as much or as productively. General labor markets will be less efficient, ergo, the market would not be able to produce as much. Consequently, the economy will produce far less per-

worker than a similar healthy economy. This is evident in Zimbabwe by the low participation rate that is just over 35 percent, as opposed to 51.08 percent in the U.S. or 51.97 percent in Japan.

The second disadvantage is that any foreign aid that is given to the country has to be diverted to health care, rather than be used to supply the country with food and other resources. According to the United Nations Office for Coordination of Humanitarian Affairs (OCHA), "The infrastructure for delivering basic social services is seriously affected, resulting in unprecedented levels of disease incidence and prevalence throughout the country"⁸.

Current Conditions

Many countries, such as the U.S. and Britain have partially withheld financial support for Zimbabwe, stating that reform needs to take place before any additional aid is offered.

The recent actions of Parliament are promising signs that Zimbabwe is finally taking radical measures to fix the market system. The allowance of businesses to use foreign currency has only helped to exile the country's currency, but it will serve to remove the country's dependence from a failing monetary system. The legislation that installed Tsvangirai as Prime Minister will serve as a check of power against President Mugabe, which should greatly improve the legitimacy of the government.

Zimbabwe's economy still has many fundamental problems that will need to be addressed before any type of economic development can take place. The first problem that must be addressed is the development of the agricultural sector. This will be extremely difficult because the land conditions in Zimbabwe are so poor. The change in government should provide the incentive for foreign nations to provide additional foreign aid to temporarily assist Zimbabwe in this area.

Zimbabwe must also reform its banking system. The hyperinflation in Zimbabwe has all but killed the Zimbabwean dollar. In order to stabilize the economy, the RBZ must become dependent upon a more stable currency. 



Pirates of Somalia

The current Proliferation of piracy off the coast of Somalia has posed a substantial threat to development and commerce in the Horn of Africa. Ravaged by political instability, internal strife, and one of the least developed economies in the world, Somalia is a prime location for piracy. Maritime hijackings in the area have accordingly been on the rise, much to the detriment of international trade and the delivery of aid to Somalia. The threat of piracy has made travel around the Horn of Africa significantly more dangerous and costly, ultimately resulting in increased commodity prices and the disruption of international trade. Aid agencies, furthermore have been forced to travel with naval escorts or suspend deliveries to the region altogether, plunging millions of Somalis into deeper hunger and despair. In this way, piracy is both a symptom and a cause of the calamitous Somali economy. To effectively combat piracy, action must therefore be taken, not only to secure waters through naval force, but to establish stability and expand economic opportunity in Somalia.

This study examines the issue of Somali piracy and its Geo-political and economic impact on the region. Three main issues are examined; First issue, answers the posed question “what is piracy? and who are the pirates?” for the reader. The second issue discusses the Somali piracy dilemma and its strategic significance. Finally, the third issue assesses the impact of piracy on Somalia and the global response.

Concerning the question posed, “What is piracy? And who are the pirates?”, a little historical background on the topic will be examined briefly. The rising phenomenon of piracy will be studied to explain the geographical distribution of pirates, their origins, their objectives, and the manners in which they accomplish their goals. Moreover, an insight view of their way of living, interaction with society, and the extent by which the piracy profession is expanding in Somalia and its causes.

The second part examines the implications of piracy on the stability, security, and economies of the varying countries of the region, specifically Egypt and Yemen. Being the two countries that control access to the Red Sea, through the Suez Canal and the Gulf of Aden,

these two countries are the most impacted by the piracy problem.

The third part examines the impact of piracy on Somalia in general while shedding light on global responses to fight this rising phenomenon. Countries like the United States, France, and Russia are examined through their efforts to combat piracy and install regional stability.

Overview

Piracy off the shore of Somalia has been a problem since the early nineties. The majority of the pirates are based in Puntland, one of the poorest areas of the country. They operate primarily in the Gulf of Aden in the Indian Ocean, between Yemen and Somalia. Most of them are former fishermen whose livelihood has been threatened by over-fishing in the area. In fact, some pirates claim that the original goal of piracy was to protect the fishing industry from avaricious European and Asian fishermen. Realizing the enormous economic return, however, piracy soon became a thriving industry in and of itself.

As of September 2008, pirates have extracted approximately \$18 million to \$30 million dollars in ransom payments, according to the British think tank, Chatham House. They were expected to bring in about \$50 million by the end of 2008; the largest annual pirate taking in Somali history. The increased sophistication in piracy tactics has enabled them to capture not only more ships, but more lucrative ones as well. Ransom demands are on the rise. In April 2005, for instance, a Hong Kong based company reportedly paid \$315,000 for the release of the M/V Feisty Gas, a liquefied petroleum gas tanker. In contrast, MISC Berhad paid \$2 million for the release of the M/V Bunga Melati 5, a Malaysian tanker in September 2008. These hefty ransom payments provide strong motivation for involvement in piracy, particularly in a poverty-ridden country whose traditional industries are deteriorating. Interestingly, the money brought in from piracy is still far less than \$300 million in fish. Peter Lehr, a Somali piracy expert at the University of St. Andrews in Scotland, estimates that Asian and Europeans poach from Somali waters. This



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suggests that the reestablishment of a profitable fishing sector would provide a viable alternative to piracy.

The proliferation of piracy in Somalia has substantial international trade implications. Approximately 16,000 ships pass through the Gulf of Aden each year on their way to the Suez Canal in Egypt, transporting myriad Asian goods and oil from the Persian Gulf region to Europe and North America. The threat of piracy has exponentially increased the cost of travel along this route. Expectedly, ransom payments and lost travel time escalate costs on hijacked vessels. All ships, however, incur increased costs in the form of higher insurance premiums. War risk premiums must now be paid on ships traveling through the Gulf of Aden, which has increased premiums tenfold over the past year. If premiums continue to rise, companies may have to take longer, more costly routes to reach Europe and North America. One possible alternative is traveling around the Cape of Good Hope, a journey that takes several extra weeks of fuel consumption and travel time. These increased expenses translate into higher commodity price for a variety of goods, including oil. In a world already damaged by the recent surges in energy costs, continued price increases pose a serious threat to international commerce and development.

An Insight View

The issue of Somali piracy in the Red Sea and the Gulf of Aden has transformed from being a regional concern to an international dilemma. Over the past few months, news about Somali pirates hijacking military and trade ships have become increasingly frequent. Eventually, NATO, the United Nations, and major industrial countries intervened to solve this problem. So who are these pirates, what has led them to piracy, what do they want, who is behind them, and how do they operate?

The piracy phenomenon started with the collapse of the Somali government in 1991 when land lords and Militia gained control over the different regions of the country. However, the Militia governing system could not fill the void that was left by the absence of a centralized authority, hence civil war plagued the country. With chaos spreading across Somalia, its shores, the longest in Africa 330 Km and very rich in marine life, became vulnerable to foreign French, Spanish, Indian,

Japanese, Korean, and other fishing ships to invade. Thus, in a matter of months the Somali coast was invaded by giant fishing ships.

The dismay of domestic fishermen and local coastal populations to such exploitation has led to an uprising from the younger populations whom seek to drive off the invading foreign ships. However, the highly corrupt land lords and militia leaders of the coastal regions struck a deal with the invading ships where they gave them licenses to continue exploiting Somalia's marine resources. In return, those Militia leaders were rewarded generously, thus condemning the local populations to unfair competition and poverty. In reaction, the revolting locals took matters into their own hands and declared war on the invading foreign ships.

In this retrospect, the pirates of Somalia were born. These young populations armed themselves and started hijacking the foreign invading fishing ships and later turned their attention towards the commercial ships that were passing by their shores. In 1998, the north-east region of Somalia, known as Bunt Land, resumed issuing licenses to fishing ships under conditions that were accepted by the locals. Thus, piracy diminished considerably but only until 2005 when the number of illegal foreign fishing ships reached 700 ships.

Moreover, not only did foreign ships take advantage of the political situation in Somalia, they went ahead to dump toxic wastes. This was reported by international news agencies, where European companies were dumping poisonous and toxic wastes in Somali waters. Also according to studies by UNEP in 1997, European countries such as Italy and Switzerland were getting rid of their waste products by dispatching it in Somalia.

After cooperation between the local youth populations of the coastal region, militia members that went astray from their leadership, and technical workers that were once lawyers and linguists, a group consisting of three main key parts was formed. That group would later emerge as the pirates of Somalia.

In Somali society, being a pirate is considered a prestigious profession. In fact, amongst the richest people in Somalia that enjoy the best of luxury are pirates. The immense amount of ransoms they receive from Euro-



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peans and other states insures their security and that of their families as well.

However, the pirates do not have any political agendas that they want to insert. The only benefit they reap are the ransoms they receive but, on the political sphere, they seem to be without a purpose. In general, the pirates' actions are a reaction to the exploitation of Somalia, but some experts believe that the pirates are nothing but puppets for a greater beneficiary. On one hand, in an effort to identify the behind-the-scene culprit, Western media tried to link the piracy phenomenon to the resistance movement against the Ethiopian invading forces. On the other hand, Arab media was able to provide physical evidence linking Israel and the US to the pirates.

Regional Impact And Security

Piracy is not only a threat to the security, economies, and stability of the different countries of the region. Countries such as Yemen, who controls the southern entrance of the Red Sea, and Egypt, who controls the northern entrance via the Suez canal, might be at the forefront of this dilemma, even though Arab countries are the ones that could suffer the majority of loss. Since Arab oil coming from the Persian gulf must be transported to Europe and the US via the Suez canal, any disturbance in its routes could pose serious security and economic issues to the world.

The rise of piracy in 2008, where more than 90 cases were reported, has severely impacted the security of the Red Sea being a strategic water passage. With the rise in risks of navigation in the region, many countries began to use alternative routes such as the Cape of Good Hope, even though it is more costly to do so. The risks that are imposed by piracy are: the weakening of the economies that benefit from the Red Sea trade routes; the potential that the Red Sea region could transform into a battle field where other countries impose themselves politically and drug dealing could blossom under such chaotic circumstances; the transforming of the Red Sea into an international water passage, which would reap out the benefits of the benefiting regional countries; and finally fears that Israel and its allies would dominate the region under the banner of "war on terror" and reshape it as proposed by the "Greater Middle East" plan.

Yemen is one of the first countries to recognize the threat imposed by piracy. As early as 1977, it held a conference for all Arab countries to discuss the security of the Red Sea region. However, due to the global political situation at the time –the Cold War, and the Arab-Israeli War- the agenda was put aside and received little attention. Yemen, however, continued to press on the subjects, especially after the collapse of the Somali government and the political turmoil that took place in East Africa. Thus, with the rise in piracy by 2007, the already fragile Somali economy had suffered severe consequences.

As for Egypt, it has sustained direct repercussions as a result of piracy, which endangered Egyptian vessels and impacted negatively on shipping through the Suez Canal. Equally important, however, are the negative ramifications on Egypt's national security. Thus the whole situation requires swift actions on the part of Egypt so as to preserve its interests. Cairo could move in cooperation with other countries or international organizations with which it shares worries over the security of the region, or it could act unilaterally if collective action proves wasteful or unworthy.

Currently, safeguarding shipping through the Red Sea and nearby areas is an Egyptian top priority. Piracy could lead to the diminishing of revenue gained by Egyptian coffers off the Suez Canal, which make up one of the largest foreign currency income sources for Egypt. Revenues from the Suez Canal fell from \$469.6 million in September to \$467.5 million in October to \$419.8 million in November. According to experts, revenues will dramatically decrease should the problem of piracy remain unresolved.

With the persistence of this problem, an international coalition of forces was formed to battle this crisis. This coalition of forces was led by the US, France, and other Western countries. The security council has passed a legislation that allowed for military presence of Western countries in Somali waters. The fear of turning the Red Sea into an international water passage has sparked alarms in the neighboring countries. It is widely thought that the United State's and EU's presence in Somalia is primarily to internationalize the southern entrance to the Red Sea and the gulf of Aden. The greater objective however, is sought to be interna-



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tionalizing the Suez Canal. An action that threatens both Egypt's national security and that of the Arab world as well.

Implications on Somalia

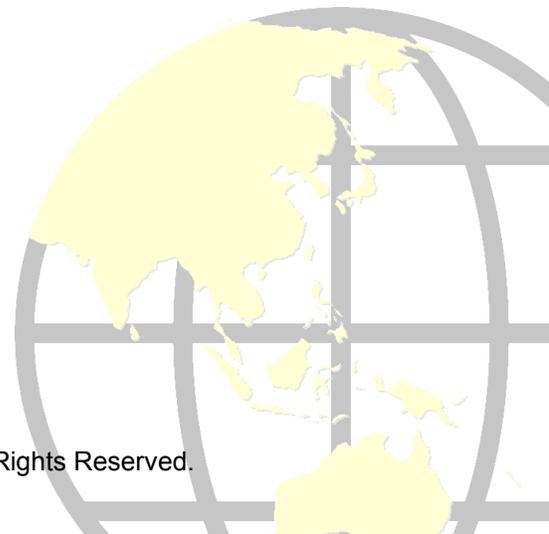
The consequences of piracy, are perhaps most apparent in Somalia itself. According to the CIA World Fact Book, Somalia receives approximately \$236.4 million in economic aid. This aid is necessary to provide food and basic provisions for millions of impoverished Somalis. The World Food Programme (WFP) estimates that Somalia will require at least 185,000 tonnes of food in 2008. Danger in Somali waters, however, has forced the WFP to intermittently suspend shipments, putting Somalia's food stock in serious jeopardy. Without food and other basic necessities, it will be very difficult for Somalia to grow and build a viable economy. In this way, acts of piracy spawned, in part, by economic hardship in Somalia are further aggrandizing the problem. Somali economic growth is therefore contingent upon the successful control of piracy in the Gulf of Aden.

Global Response

Unable to effectively combat piracy alone, the TGF has sought foreign help to control piracy in the Gulf of Aden. Given the dire economic and humanitarian consequences of continued piracy, the international community has responded with ships to serve as naval escorts and patrol the waters. France, Denmark, the Netherlands, and Canada, for instance, provided naval escorts from November 2007 to June 2008 to allow WFP ships to deliver food aid to Somalia. In September 2008, Russia joined international efforts, sending out their own independently operating warships. France has also played an effective role. Following the release of the MY Le Ponant, a French luxury yacht, on April 12, 2008, French soldiers tracked the fleeing pirates. They eventually disabled the car transporting the pirates and apprehended six of them, charging the pirates with theft, hostage-taking, and hijacking. Despite these various efforts, however, piracy persisted in the Gulf of Aden. Recognizing that more help was necessary, the TGF besought international assistance to combat robbery and piracy off the coast of Somalia in a letter to the President of the Council. In response, the UN responded by passing resolution 1838 to fight pi-

racy off the coast of Somalia through the use of naval vessels and military aircrafts.

Although international military presence is integral to immediate Somali maritime security, long-term resolution of piracy hinges on the creation and maintenance of economic stability in Somalia. A strong, centralized Somali government backed by a reliable police force is perhaps one of the most powerful tools in combating long-term piracy in Somalia. This will enable Somalia to enforce its maritime rights and begin to rebuild damaged industries such as fishing, among other commercial advances. As long as dire economic conditions persists, however, the vast rewards of piracy will remain in existence. 





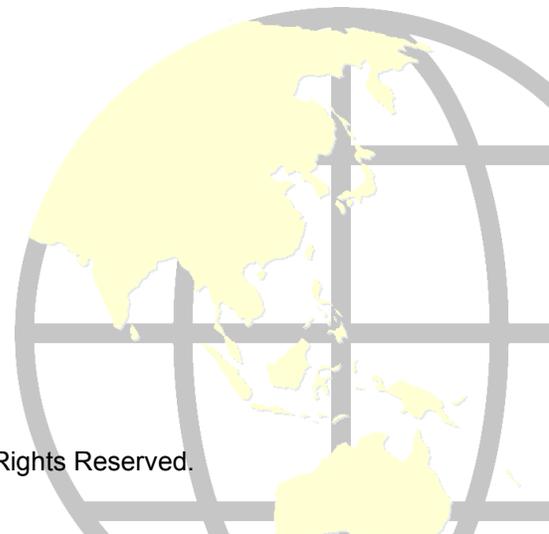
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March 02, 2009

Vol. 1 No. 1

Africa Economic Development Institute

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