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Shaking Out or Shaking In: The Impact of Zimbabwe's Economic Crisis on the Country's Manufacturing Sector Allocative Efficiency[1]

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Following Zimbabwe's economic crisis between 1997 and 2009, a number severe policy reversals from the achievement of reforms and a more competitive manufacturing sector attained through the 1991 to 1995 IMF/World Bank supported Economic Structural Adjustment Programme, were instituted by the country's authorities in their quest to rescue the crisis. These included selective credit, selective foreign exchange allocation and at worst directed marketing of basic commodities at the height of the crisis. These firm and industry specific interventions complemented the already existing crisis induced idiosyncratic shocks on industry and firms.

On the basis of the resource misallocation hypothesis, we asked the question on whether such idiosyncratic shocks and interventions had a bearing on the country's within industry resource allocation efficiency and potentially on its aggregate manufacturing sector productivity. The study finds that there were significant losses on the country's aggregate productivity due to worsening resource allocation inefficiencies during and after the crisis. The results of the study have suggested the existence of a positive correlation between the escalation of these selective interventions and shocks and inefficiencies in the country's within industry resource allocation. Lessons have been drawn from the cases of Ghana and Kenya, whose manufacturing sectors were less competitive than that of Zimbabwe in the mid 1990s but which remained steady fast with industry policy reforms and managed to grow their aggregate productivity through improved manufacturing sector resource allocation efficiencies between Zimbabwe's pre and post crisis periods.

The study is novel in considering the resource allocation inefficiency implication in Zimbabwe following its crisis, which is one of the worst economic crisis in history. The study has also illustrated how economic crisis in a small country, as opposed to crisis in large economies, can be costly, with the costs persisting into the post crisis period due to policy inertia and weak willingness to embark on market reforms by the affected country authorities.

The study suggests relevant policy handles for the government of Zimbabwe and other developing countries which experience crisis similar to Zimbabwe's to consider urgent implementation of policy reforms that are pro resource allocation efficiency as well as to desist from use of selective firm and industry policies and interventions.

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