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# **AGRICULTURAL RESTRUCTURING IN SOUTHERN AFRICA**

**Papers presented at an  
International Symposium  
held at Swakopmund, Namibia**

**24-27 July, 1990**

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**International Association of Agricultural Economists  
in association with  
Association of Agricultural Economists in Namibia  
(AGRECONA)**

First published in 1992 by the Association of Agricultural Economists of Namibia

P.O. Box 21554, Windhoek, Namibia.

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Printed in Namibia by Windhoek Printers & Publishers (Pty) Ltd,  
P.O. Box 1707, Windhoek, Namibia.

Distributed by the Association of Agricultural Economists of Namibia,  
P.O. Box 21554, Windhoek, Namibia.

ISBN 99916/30/10/4

**ZIMBABWE POLICY PROFILE - 1980 TO 1988**

S Shapouri and M Missiaen

**INTRODUCTION**

During the 1980s, most African countries implemented major policy reforms and economic adjustments designed to address the long term imbalances between domestic demand and supply, a cause of growing external deficits and of slowing of economic growth. Domestic policies are blamed as a major cause of these imbalances. In the late 1970s, as economic difficulties grew in most of Sub-Saharan Africa, countries were unsuccessful in obtaining external financial support essential to restore economic growth. With growing constraints on the availability of capital, the International Monetary Fund (IMF) and the World Bank made loans contingent, to a large extent, on a set of macroeconomic policy reforms aimed at increasing productive capacity.

The objective of this paper is to evaluate changes in the key economic indicators and establish both quantitative and qualitative relationships between performance indicators and policies. The main focus is on macroeconomic and agricultural policies. A brief overview of Zimbabwe's economic situation in the early 1980s and the basis for policy change is given. Then, an evaluation of overall economic and agricultural response to policy changes is presented. The analysis is based on a simple growth model with internal investment and exports as endogenous variables. The analysis of the agricultural sector policy response is based on establishing a qualitative relationship between policy variables and performance. While data are insufficient to estimate a full-scale structural model of Zimbabwe's economy, the results can be useful in establishing the fundamental causal relationships between economic indicators and macroeconomic policies.

**ECONOMIC BACKGROUND**

Zimbabwe became independent on April 18, 1980 with a dual economic structure consisting of a well-developed modern sector dominated by a small white population and a largely African, subsistence-communal sector. The modern sector, accounting for the greater part of the gross domestic product (GDP), includes most of the country's fertile agricultural land, mineral resources and is served by a developed transport and electric power infrastructure. Pre-independence economic development efforts were centered almost entirely in this sector.

Following independence, the political and economic promises of the new Government led to major policy reforms aimed at "growth with equity," which sought to provide an adequate return to producers, to maintain low consumer prices, to encourage food self-sufficiency, and to promote exports. In 1980 and 1981, good weather, the cessation of civil strife, and the lifting of international sanctions, led to strong economic recovery with 12 percent GDP growth. But in 1982, drought and depressed world demand for some of Zimbabwe's agricultural and mineral exports resulted in a severe foreign exchange shortage. The slow income growth and increasing Government investment and expenditure led to a growing budget deficit (Table 1).

**Table 1**  
**Macroeconomic performance indicators and policies**

Indicators and policies	1980-82	1983	1984	1985	1986	1987	1988
<b>Performance indicators</b>							
Population (mil)	7,31	7,74	7,98	8,38	8,41	8,64	8,88
GDP, nominal (mil local)	4 349	6 224	6 404	7 019	7 902	8 291	9 299
GDP, real (mil local)	3 855	4 039	3 458	3 494	3 440	3 210	3 362
Per capita real GDP (index)	100,0	99,0	82,2	79,1	77,6	70,5	71,8
Capital formation/GDP (%)	17,4	19,9	18,5	16,1	16,7	16,8	17,5
Gross domestic investment/GDP	25,3	16,1	18,9	21,1	21,4	21,5	22,4
Gross national saving/GDP (%)	19,5	8,8	17,3	18,8	21,6	23,0	22,5
Consumption/GDP (%)	85,3	87,1	80,5	77,7	74,1	74,0	74,1
<b>Macroeconomic policy</b>							
Money Supply/GDP (%)	16,4	12,1	13,5	14,3	14,0	14,8	17,2
Domestic Credit/GDP (%)	34,2	34,1	32,4	33,0	31,3	37,3	38,7
Budget Balance/GDP (%)	-9,4	-7,6	-9,1	-7,8	-9,1	-12,5	-10,6
Government Subsidy/GDP (%)	2,6	2,1	3,8	4,7	4,2	5,2	5,2
Interest Rate (%)	20,0	23,1	23,0	17,2	13,0	13,0	13,0
<b>Consumer price index (1980 = 100)</b>							
Total, all commodities	112,8	154,1	185,2	200,9	229,7	258,3	276,6

Sources: IMF, International Financial Statistics and unpublished material.

### MACROECONOMIC POLICY AND PERFORMANCE

In 1982, the Government published the Transitional National Development Plan to provide an improved macroeconomic framework for economic development. There is a large body of literature arguing that any changes in macroeconomic policies have decisive impacts on a country's economic performance.

Assessing the impact of macroeconomic policy adjustments on Zimbabwe is hampered by the short duration of the policy changes already undertaken and the expected lagged response to these changes. Therefore, the analysis is limited to the evaluation of factors affecting economic growth using a simple macroeconomic growth model. The model, based on neoclassical growth theory for developing countries, attaches considerable importance to investment and exports. In Zimbabwe, the decline in investment was considered a key factor behind the sluggish economic growth. The fiscal policies led to growing budget deficits and the goal of monetary policies was to finance and control inflation rates. These policies resulted in decline in investment from domestic resources. The cautious external policies also reduced foreign capital inflow (foreign investment).

The impact of export performance on economic growth has been highlighted in the literature. In developing countries, the export sector serves as a conduit for technology transfer through importation of capital goods. An increase in exports raises the capacity to service external debt and promotes higher rates of foreign capital inflow for investment. A poor export performance means less foreign exchange, reduced imports, less foreign credit, and finally, diminished economic performance. Based on the above framework, the aggregate output is related to the productivity factors:

$$Y = f(K, L, X)$$

where  $Y$  is real aggregate output,  $K$  is stock of capital,  $L$  is labor, and  $X$  is exports. Taking the total differentials of both sides and manipulating the expression, the growth equation (indicated by  $_g$ ), is:

$$Y_g = f(L_g, I/Y, X_g)$$

where  $Y_g$  is income growth measured by real GDP (CPI is used as deflator),  $L_g$  is labor growth,  $I/Y$  is investment share of income, and  $X_g$  is export growth. In growth estimation, total investment has been divided into two components - internal and foreign investment - to measure their independent impacts. This is important because Government policies have a strong direct influence on internal investment, while the impact of domestic policies on foreign investment is, at most, limited. In specifying the growth relationship, it is assumed that labor growth ( $L_g$ ) and foreign investment ( $I_f/Y$ ) are exogenous, while domestic investment ( $I_d/Y$ ) and export growth ( $X_g$ ), are endogenous.

Many models used to explain investment variations in developed countries cannot be used for developing countries because key assumptions, such as perfect capital markets, are not applicable to LDC's financial markets. Also, often, data are unavailable or inadequate. In specifying investment variation, a specification similar to that developed by J. Greene and D. Villanueva (IMF) was employed. Domestic investment as a share of income ( $I_d/Y$ ) is assumed to be negatively related to the real interest rate ( $RI$  - ratio of nominal interest rate to CPI) which is a measure of the user cost of capital, negatively related to the inflation rate (CPI), positively related to the expected income growth ( $EY$  - which is a lagged percentage change in real GDP), and negatively related to the large external debt burdens ( $DT/X$  - ratio of external debt service to the exports of goods and services).

The expected income growth and interest rates are included in the neoclassical investment models. The domestic inflation rate is included to account for the risk of long term investment. High inflation creates macroeconomic instability and is an indicator of a Government's inability to control macroeconomic policies, which contributes to a negative investment climate. Large external debt is treated as a factor in reducing investment incentives because high debt service payments reduce the availability of funds and could diminish returns on investment. Based on the above discussion, the domestic investment is:

$$I_d/Y = f(RI, CPI, EY, DT/X)$$

Finally, the real export growth rate ( $X_g$ ) is assumed to be a function of the growth rate of real export prices ( $P_x/P_m$  - export prices deflated by import prices,  $P_m$ ), growth in exchange rate ( $EXR$  - nominal exchange rate divided by CPI), and increased demand in importing countries ( $Y_w$  - the real income growth of industrial countries is used as a proxy). Exports are expected to respond positively to growth in real world export prices. Changes in the world prices, however, may not transfer to the domestic market because of exchange rate adjustments. The effects of such movements ( $EXR$ ), unlike those of price, affect the cost of imported inputs and raw materials used to produce exported commodities. The export relationship is:

$$X_g = f(Y_w, EXR, P_x/P_m)$$

The data from 1966 to 1987 are used for the ordinary least squares estimation. The empirical results are:

- Income growth:

$$Y_g = -22,14 + 2,13 L_g + 0,26 X_g + 53,32 I_d/Y + 224,44 I_f/Y \quad (1)$$

(0,96)      (1,87)\*      (2,83)\*      (2,34)\*

$$R^2 = 0,59 \quad SEE = 5,87$$

- Domestic investment:

$$I_d/GDP = 0,60 - 0,04 RI - 0,39 CPI + 0,68 EY + 0,01 DT/X \quad (2)$$

(-4,37)\*    (-1,20)    (3,51)\*    (1,50)

$R^2 = 0,85$      $SEE = 0,06$

- Exports:

$$X_g = - 0,13 + 0,03 Y_w - 0,04 EXR + 0,79 P_x/P_m \quad (3)$$

(2,05)\*    (-0,13)    (2,80)\*

$R^2 = 0,41$      $SEE = 0,11$

In the income growth (Equation 1), the explanatory power of the variables was 0,59. All four variables had the expected signs (positive), and three were significant at the 10 percent level. The significant variables are domestic and foreign investment and exports. The policy implication is that, for Zimbabwe to achieve sustained economic growth, increases in domestic investment and exports are essential. The performance of domestic investment, given its strong impact on economic growth, could be influenced by domestic policies. Factors with positive and significant impacts on investment from domestic sources are a decline in interest rates and an improvement in income growth expectation (Equation 2). Improvement in economic performance strengthens investor confidence, while declining interest rates lower investment costs. Variation in the inflation and debt service to exports ratio did not exhibit a strong impact on domestic investment decisions (both insignificant).

An improvement in export performance, in addition to having a direct positive impact on economic growth, is expected to alleviate financial constraints and increase imports of capital goods. From 1982-88, export growth was a weak 2,4 percent per year because of slow export volume growth. Government policies, particularly inadequate exchange rate adjustments, were blamed for this poor performance, but other factors were also involved.

Weather was also a major factor as about 80 percent of Zimbabwe's exports are primary products including gold, tobacco, sugar, coffee, maize and meat.

Real export growth showed a positive and significant response to demand growth in the industrial countries, and to growth in real export prices (Equation 3). The impact of the exchange rate on exports was not significant (perhaps because of the short duration of the flexible exchange rate policy). The exchange rate depreciation policy was adopted in 1982 to improve the performance of the export sector. The exchange rate has been periodically adjusted with reference to a trade-weighted basket of 14 currencies (Table 2). Future external market conditions are uncertain. Growth in the industrial economies has been steady since 1982 but is expected to slow in the 1990s. The favorable terms of trade of the 1980s relative to the 1970s, a result of the removal of international sanctions (favorable import price), may not continue. Despite a price recovery from 1983-86, producers of primary commodities, in general, suffered significant terms of trade losses during the 1980s. According to the IMF's medium-term projections, real prices for non-fuel primary commodities will increase slightly over 1991-95 (IMF: *World Economic Outlook*). Zimbabwe's exports are highly diversified (equally distributed between agriculture, minerals, and manufactures), which provides an optimistic outlook for future growth. However, if the current slow growth in export volume persists, the foreign exchange shortage, which has been the binding constraint on past growth, will continue as a major impediment. Recently, the Zimbabwean Government has taken a number of steps to promote exports, which should help export performance.

**Table 2**  
**Trade performance indicators and policies**

Item	1980-82	1983	1984	1985	1986	1987	1988
Trade Performance (mil US\$)							
Balance of payments	-530	-460	-100	-76	7	48	9
Balance of trade	-45	87	187	199	309	378	392
Exports, merchandise, fob	1 404	1 155	1 175	1 117	1 317	1 447	1 586
Imports, merchandise, fob	1 448	1 069	989	917	1 008	1 069	1 193
Trade Policy							
Exchange rate (local/\$)	0,70	1,01	1,24	1,61	1,67	1,66	1,80
Real effective exchange rate (1980=100)	112,5	103,3	103,4	92,1	84,7	80,8	75,1
Trade taxes/GDP (%)	1,7	3,7	4,5	4,6	5,1	5,2	5,5

Sources: IMF, International Financial Statistics and World Bank, World Tables.

### POLICIES AND THE AGRICULTURAL SECTOR

The social importance of Zimbabwe's agricultural sector is far greater than its 10-14 percent share of GDP indicates. About 70 percent of the population lives in rural areas and agriculture is their main source of income. The performance of the agricultural sector is highly correlated to rainfall, and Zimbabwe has experienced major production fluctuations over the past decade (Table 3). The coefficient of variation for cereal production is 27,3 percent with recorded shortfalls of 60 percent from the production trend. Based on 1966-88 data, droughts occur about once in three years. Such large annual production variations increase Government costs and hamper effective production planning.

The Zimbabwe Government intervenes in the market in order to reduce market instability and stabilize returns to farmers. Most Government intervention is through the Agricultural Marketing Authority (AMA). With the exception of tobacco, most crops are marketed by Boards overseen by the AMA. All the Boards operate as monopolies in purchasing, processing, domestic sales and export of their respective commodities. The Government controls producer prices for beef, milk, maize, wheat, cotton, soybeans, and groundnuts. Since independence, there have been few changes in producer price policy (Table 4).

Evaluating the impact of macroeconomic policies on the agriculture sector is very complicated and difficult, given the dualistic commercial and subsistence nature of this sector, and the lack of data for critical variables, especially agricultural investment. Also, the directions of national and sectoral policies are not always consistent. For example, policies to boost production of traditional commodities coupled with policies to diversify exports can lead to conflicting signals and the results may not show much measurable change on the aggregate level. The rigidity of agricultural sectors in general, and developing countries in particular, reduces policy response. Weather variability also plays a decisive role and weather-induced production variation often masks and reduces the impact of incentive policies.

The impact of policy changes at the aggregate level is limited because aggregate output can only grow if more resources are allocated to agriculture or if the productivity increases through technology improvement.



**Table 3**  
**Zimbabwe: Agricultural performance indicators**

Performance indicators	1980-82	1983	1984	1985	1986	1987	1988
Index of agric. production (1979-81 = 100)	100	84	99	125	124	105	114
Production (1000t)							
Maize	2 104	884	1 400	2 952	2 545	1 132	2 229
Wheat	192	124	100	205	225	214	257
Seed cotton	155	147	247	295	252	233	319
Tobacco	93	94	125	109	117	119	120
Area (1000ha)							
Maize	1 330	1 322	1 356	1 429	1 314	1 211	1 236
Wheat	38	23	17	42	46	42	47
Seed cotton	108	133	180	210	243	273	260
Tobacco	50	48	57	62	68	62	63

Sources: USDA. Zimbabwe Agricultural Attache reports and Zimbabwe Statistical Yearbook.

**Table 4**  
**Zimbabwe: Agricultural policies**

Agricultural policy response	Base year 1980-82	1983	1984	1985	1986	1987	1988
Real producer prices (Z\$/ton):							
White maize	96	78	76	90	78	70	70
Wheat	145	143	135	142	131	128	132
Seed cotton	381	334	308	333	327	310	307
Tobacco	1 273	1 211	1 102	1 324	1 359	845	1 420
Nominal producer prices (Z\$/ton):							
White maize	108	120	140	180	180	180	195
Wheat	163	220	250	285	300	330	365
Seed cotton	430	515	570	670	750	800	850
Tobacco <sup>1)</sup>	1 436	1 866	2 040	2 660	3 122	2 183	3 929
Ratio producer to world price:							
Maize	1,23	0,81	0,94	1,11	1,46	1,14	1,11
Wheat	1,38	1,42	1,34	1,34	1,63	1,66	1,23
Seed cotton	1,12	0,97	0,77	0,77	1,26	1,16	0,92

<sup>1)</sup> Auction price.

Sources: USDA. Zimbabwe Agricultural Attache reports, Zimbabwe Statistical Yearbook, and IMF.

During the 1980s, increased resource flows to agriculture, particularly to small farms, were constrained by capital shortages which limited investment, and by the lack of imported inputs (machinery). The impact of policy changes is expected to be larger for individual crops than for agriculture as a whole, because of the high degree of substitution among crops. The lack of detailed data however, limits the analysis. Table 5 traces the direction of policies and their expected impact on different commodity groups. Commodities are grouped into exports (tobacco and others), imports, and those not traded.

Among the key macroeconomic policies, exchange rate devaluation is expected to have a positive direct impact only on tobacco, which is traded in the open market. The final incentive to tobacco producers however, depends on the international price. For other commodities, the direct impact is limited because most prices are set by the Government.

However, the indirect impact of trade policies could affect other crops. For example, Zimbabwe's import substitution policy is expected to improve food production incentives, while exchange rate devaluation indirectly reduces the prices of non-exported food relative to export crops. The impact of fiscal and monetary policies is expected to be negative because of decline in investment from domestic resources and increase in the rate of inflation. A decline in domestic demand, which tends to follow contractionary adjustment policies, is expected to have a negative impact, especially on food crops. The agricultural adjustment policy also calls for lower subsidies, reversing a subsidy policy which has been used extensively to stimulate output.

Table 5

**Zimbabwe: Effects of policies on changes in relative incentives in agriculture, 1980-88**

Policy area	Agricultural products				Inputs	
	Tobacco	Exports	Imports	Non-traded	Imported	Domestic
Macroeconomic policies:						
Exchange rate	+	o	.	o	.	+
Fiscal/monetary	.	.	o	.	o	.
Sectoral policies:						
Import restriction	?	?	.	+	.	+
Credit subsidy	+	+	o	+	o	o
Price support	o	+	o	+	o	o
Investment/Technology	+	+	o	+	+	+
Possible net incentives	+	+small	.	+	o	+
World prices	+	.	.	o	.	+
Total possible net incentives	+	.	.	+	.	+
Performance	+small	.	.	+small	.	+

The effect of direct sectoral policies were generally positive. The consequences of import restrictions on the export sector are not clear. Import substitution policies could shift resources from exports to the output of commodities for domestic use. The Government supports food crops by providing price stability and non-price incentives to maintain self-sufficiency. The Government is raising incentives and providing extension and marketing services in an effort to encourage increased productivity in the communal sector. Production of commodities such as sorghum, sunflower seed, soybeans, and peanuts rose sharply from 1982-87, in response to improved price incentives, ranging from a 35 percent growth to as much as 600 percent.

Marketing boards play an important role in improving agricultural output, but their expanded activities are accompanied by higher administrative costs and rising budget deficits.

From 1982 to 1987, the combined operating deficits of the agricultural marketing boards were 30 to 50 percent of the total operating costs of Zimbabwe's public enterprises. Currently, the Government focus is on improving the marketing system and reducing its costs. An alternative and possibly complementary system is strengthening the role of cooperatives which already provide an array of services including input supply and commodity marketing. The number of cooperatives has increased rapidly, and currently serve about 40 percent of smallholders. Although cooperatives seem efficient, they are hampered by limited resources and inadequate management.

With the exception of tobacco, which is sold at auction, nominal producer prices of most commodities have increased steadily but less than the inflation rate since 1980-82. The strong and influential producer lobby continues to place pressure on the Government to raise producer prices.

Domestic and international prices were compared in order to evaluate the direction of price policy intervention (Table 4). The ratio of domestic to world prices shows that on average, the difference between domestic and world maize and seed cotton prices is not large and that the annual differences are caused by the stable domestic price policy. For wheat, domestic prices are kept above world prices as an incentive to encourage self-sufficiency.

The downward trend in international prices (external factor) for agricultural commodities was a negative factor for export crops but positive for agricultural imports (reduced the import costs). Overall, the expected aggregate effect of domestic and external factors is negative for exports and positive for non-exported agricultural commodities. The aggregate performance followed the path of incentive signals, with a declining trend in exports and a positive trend for non-exported commodities.

The direct impact of sectoral policies on individual commodities is even more difficult to evaluate than is their impact on agriculture as a whole. Commodity response varies depending on the infrastructure of the market. In the case of Zimbabwe, the impact on the individual commodity depends on whether it is produced by communal or by commercial farmers. Another difficulty is differentiating between the shift in supply induced by price changes and the shift induced by non-price factors, especially when price is the only data available. Price elasticities for major crops, as measured by the ratio of the annual percent change in production relative to the previous year's change in real producer price, varies widely both across crops and across time. To show the impact of non-price factors, price elasticities for maize (0,36) and wheat (0,34) based on 1966-83 data were used to estimate the expected production for the 1983-88 period. The substantial short-term variations of actual to estimated output of maize indicate that, in the short run, reliance on a price incentive policy may not achieve the policy's intended objectives. In Zimbabwe, weather tends to dominate short-term output/price relationships. Other factors, such as access to inputs (not Government controlled), credit (controlled), and transport (not controlled), are in most cases correlated with real price changes, so that the output/price relationship could represent a joint impact.

## **SUMMARY AND CONCLUSIONS**

From 1980 to 1988, Zimbabwe's economic activity was cyclical. On average, real GDP grew by 2 percent annually from 1982 to 1988, population grew by 3 percent per year, and real per capita income declined by 1 percent per year. Economic performance lagged as a result of counterproductive budgetary and exchange rate policies and in some years

unfavorable international economic conditions. Zimbabwe's slow agricultural growth, largely due to droughts in 1983 and 1984, also affected the performance of the agro-industry sector.

In the 1990's, Zimbabwe's economy faces both external and internal challenges which will determine its economic well-being. First is the vulnerability of its balance of payments to global economic changes. Second is the level of economic growth in industrial countries, and third is change in the relative prices of exported and imported commodities.

Among the most remarkable of Zimbabwe's policy adjustments in the 1980s was the improvement in its trade and current account balances, from deficits in the early 1980s to surpluses by 1987-88. This turnaround was largely due to the improvement in external factors such as the economic growth of the industrial countries, and some improvement in Zimbabwe's terms of trade.

The results of the study indicate that an improvement in export performance will have a strong positive impact on Zimbabwe's economic growth. The poor performance of the export sector, measured in terms of loss in world market share during 1980-88, indicates that the Government's trade policy, especially that dealing with exchange rates, was insufficient to stimulate exports. Another factor was the income growth and import restriction policies which increased domestic use of exportable commodities such as coal. Many of Zimbabwe's principal exports have reached maturity in their production cycles, so that output expansion will be marginal at best. There is also a widening technological gap between Zimbabwe and its competitors, so that further export growth, increased investment in the export sector, and export diversification, are critical.

Overall, the positive balance of payments improved Zimbabwe's creditworthiness. The challenge now is to reactivate the economy. There are a number of options. One would be to reduce Government outlays and consumer subsidies. While this would be politically unpopular, it would presumably free resources for investment, and that is critical. Increased foreign investment is equally crucial, and substantial donor and creditor support is essential. Credit and exchange rate policies are important, as are sectoral policies which have an even greater bearing on producer incentives. Thus, continuing support for the agricultural sector, particularly of food crops, through price stability and non-price incentives, is important.

Zimbabwe faces a number of politically sensitive policy decisions. The first is how to reduce rising Government costs while pursuing equity objectives of increasing smallholder incomes. The second is how to diversify crop output and achieve long-term stability in agricultural growth. The third is how to improve trade incentives in order to avert loss of market share for its principal exports.

Zimbabwe will continue to be self-sufficient in its most basic food commodities. Production expansion will be promoted for commodities suited to small farming, such as food grains, oilseeds, and legumes. Commercial farmers will continue to play a major role in the output of all commodities, and the strategy is to promote diversification to new export commodities.

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